NORTHEAST ASIA AFTER 9/11: REGIONAL TRENDS AND U.S. INTERESTS

HEARING

BEFORE THE

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NORTHEAST ASIA AFTER 9/11: REGIONAL TRENDS AND U.S. INTERESTS

THURSDAY, NOVEMBER 15, 2001

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON EAST ASIA AND THE PACIFIC,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Subcommittee met, pursuant to call, at 2:33 p.m. in Room 2172, Rayburn House Office Building, Hon. James A. Leach [Chairman of the Subcommittee] presiding.

Mr. LEACH. The Committee will come to order.

On behalf of the Subcommittee, I would like to welcome our panel of witnesses today. I believe that this will be the inaugural appearance of all of our witnesses before the Subcommittee, although Mr. Bergsten is well known to this Member and obviously the Congress for his frequent cogent testimony on economic affairs.

We look forward to hearing all of your views and in the case of Mr. Glosserman, we hope for the sake of the staff that our newfangled video conferencing technology works as advertised.

The purpose of today's hearing is to review developments in Northeast Asia after the events of September 11th and assess key regional trends and their potential impact on U.S. national interests.

Given the understandable focus on events in Afghanistan, Northeast Asia has temporarily receded from the headlines, but as my colleagues understand, the region remains vital to U.S. interests and pivotal to global peace and prosperity.

During the last 19th and for most of the 20th century, Northeast Asia has served as a geographic cockpit for great power conflict and rivalry. Even today, it is in Northeast Asia that Asia's four major military powers, China, Japan, Russia and the U.S., come into closest proximity. The Korean peninsula remains the final Cold War frontier, where the threat of large-scale armed conflict involving U.S. forces remains substantially undiminished.

Northeast Asia is the setting for the potentially explosive rift between China an Taiwan. Also at stake is the future of Mongolia, a thinly populated country sandwiched between two giant neighbors, that continues to make an impressive transition from one-party socialism to democracy and market economics, and from a nation on the fringes of the Asia-Pacific community into one that is positively involved in the region.

In addition, despite the lingering impact of the Asian financial crisis, the region continues to rise in global economic importance. Also of note is the rapidly increasing demand for Persian Gulf en-

ergy, which has increasingly intertwined the region with the volatile geopolitics of the Middle East and Central Asia. The region's exceptional diversity in culture, political systems, and levels of economic development, as well as the geographic size and population of its countries adds yet another layer of complexity.

For over half a century, the U.S. has played a stabilizing role in this region. The U.S. seeks to promote a stable, secure, prosperous and peaceful community in Northeast Asia in which the U.S. is an active player, partner and beneficiary. An essential element of U.S. policy has been our treaty-based security alliances with Japan and South Korea, arrangements which have sustained a credible forward-deployed American military presence to enhance stability, deter conflict and respond rapidly to other contingencies and transnational challenges.

The U.S. regional security presence has been a cornerstone of an engagement strategy that includes traditional diplomacy, promoting open markets and people-to-people contact through educational, scientific and cultural exchanged.

In this regard, one issue for Subcommittee consideration relates to how we should think about Northeast Asia in the aftermath of September 11th. Has the U.S. campaign against al-Qaeda and global terrorism fundamentally changed any key bilateral relationships or altered existing regional dynamics in the region?

I have a number of larger questions that I have in my testimony which I will submit for the record, but I just want to make it clear that we look for the insights of this panel who have been selected with great care and understanding for their expertise on these questions.

At this point, let me ask Mr. Faleomavaega if he has any opening statement.

[The prepared statement of Mr. Leach follows:]

PREPARED STATEMENT OF THE HONORABLE JAMES A. LEACH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA, AND CHAIRMAN, SUBCOMMITTEE ON EAST ASIA AND THE PACIFIC

On behalf of the Subcommittee, I would like to warmly welcome our distinguished panel of witnesses today. I believe that this will be the inaugural appearance of all of our witnesses before the Subcommittee, although Mr. Bergsten is well-known to this Member and Congress for his frequent cogent testimony on economic affairs. We look forward to hearing all of your views and, in the case of Mr. Glosserman, we hope for the sake of staff that our newfangled video conferencing technology works as advertised.

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In addition, despite the lingering impact of the Asian financial crisis, the region continues to rise in global economic importance. Also of note is the rapidly increasing demand for Persian Gulf energy, which has increasingly intertwined the region with the volatile geopolitics of the Middle East and Central Asia. The region's exceptional diversity in culture, political systems, and levels of economic development, as well as the geographic size and population of its countries, adds yet another layer of complexity.

For over a half-century, the U.S. has played a stabilizing role in Northeast Asia. The U.S. seeks to promote a stable, secure, prosperous and peaceful community in the region in which the U.S. is an active player, partner and beneficiary. An essential element of U.S. policy has been our treaty-based security alliances with Japan and South Korea, arrangements which have sustained a credible forward-deployed American military presence to enhance stability, deter conflict, and respond rapidly to other contingencies and transnational challenges. The U.S. regional security presence has been a cornerstone of an engagement strategy that includes traditional diplomacy, promoting open markets, and people-to-people contact through educational, scientific and cultural exchanges.

In this regard, one issue for Subcommittee consideration relates to how we should think about Northeast Asia in the aftermath of the events of September 11. Has the U.S. campaign against Al-Queda and global terrorism fundamentally changed any key bilateral relationships or altered existing regional dynamics in Northeast Asia?

Over the longer-term, several outstanding issues seem likely to shape the future of the Northeast Asian environment and United States policy. In this regard, the Subcommittee looks forward to the views of our experts on the following questions:

- How are the changing economic dynamics in the region—China's rise and Japan's stagnation—affecting relationships among the countries in Northeast Asia, as well as nascent efforts to forge a regional economic and trade identity?
- What is the likely trajectory of China's political, economic, and strategic transition, and how will regional states approach long-term relations with Beijing?
- What are the prospects that the Japan-U.S. alliance will evolve into the kind of "special relationship" that America has with the United Kingdom, and can Japan become a "normal" nation in international security affairs without latent hostility again surfacing between Japan and its neighbors in China and Korea?
- What are the prospects for ensuring the Taiwan issue remains on a political track, leading to a peaceful resolution acceptable across both sides of the Taiwan Strait?
- What is the likely evolution of the divided Korean peninsula, and to what extent is the United States prepared for any major change in the status quo that would alter perceptions of peninsular and regional security?
- Finally, under what conditions will Russia's strategic prospects improve both globally and in Northeast Asia, and how will a prospective new Russian-U.S. partnership affect Moscow's ability and willingness to cooperate with Washington on Northeast Asian security goals?

We look forward to your insights on these and other issues of the day.

Mr. FALEOMAVAEGA. Mr. Chairman, I, too, would like to offer my personal welcome to the distinguished members of our panel who will share with us their wisdom and sense of expertise and understanding of this important region of the world.

Mr. Chairman, while Washington and much of the world is intensely focused on the conflict in Afghanistan, Southwest Asia and the Middle East, it is also important that we not neglect other regions of the world that are vital to United States interests.

Such a region is Northeast Asia, where the United States has provided security for decades and continues to guard against possible conflict in the Korean peninsula and the Taiwan Strait, while engaging with the region's economic powers that set much of the global economic agenda.

I do commend you again, Mr. Chairman, for calling this hearing today to examine relations with China, Japan, Korea and Russia after the terrorist attacks of September 11th and I also want to join you welcoming again our distinguished members of the panel.

Mr. Chairman, some have argued that the horrific terrorist attacks on America's World Trade Center and the Pentagon, and the international war on terrorism that has resulted, have the potential to fundamentally alter our relations with nations in Northeast Asia. In looking at China, it was not long ago that tensions with the PRC ran extremely high over the EP–3 aircraft incident. Yet today China's President Jiang has joined President Bush in unequivocally condemning the terrorist attacks and has contributed to U.S. led efforts to combat terrorism.

China has played a significant role by sharing intelligence and sending over a team of counter-terrorist experts to Washington, supporting anti-terrorism resolutions in the United Nations Security Council, and even providing humanitarian relief to aid Afghan refugees, among other things.

In the aftermath of the attacks, Japan has also stepped forward to aid the U.S. anti-terrorism efforts. Unlike their inaction during the Gulf War where only funds were contributed, Japan has enacted measures authorizing for the first time to my knowledge, Mr. Chairman, its self-defense forces to participate by providing logistical support and intelligence to United States counter-terrorism military operations.

I have long felt that Japan as a democracy and world power must shoulder its fair share of the military burden to provide international security and this development is a significant step toward Japan becoming again truly a "normal" nation.

And as I have stated earlier also, Mr. Chairman, I do not see why Japan and Germany should not join and become permanent members of the U.N. Security Council as well.

With regards to our former Cold War adversary Russia, it is ironic that President Putin was the first world leader to contact President Bush and convey strong support after the terrorist attacks. As we know, Russia's contribution to the fight against international terrorism has been critical and substantial, including securing the cooperation of Central Asian republics for U.S. military based operations, opening Russian airspace for U.S. humanitarian and support flights, and close consultations in sharing Russian intelligence.

Mr. Chairman, as a reflection of this new partnership, I deeply commend President Putin and President Bush for their joint announcement this week to slash U.S. and Russian nuclear arsenals by two-thirds within the decade. Ridding the world of thousands of strategic nuclear warheads in addition to terrorism, cannot but enhance peace and stability for all nations.

Thank you again, Mr. Chairman, for the opportunity to provide this brief comment and I do look forward to hearing from our distinguished panelists.

[The prepared statement of Mr. Faleomavaega follows:]

PREPARED STATEMENT OF THE HONORABLE ENI F.H. FALEOMAVAEGA, A REPRESENTATIVE IN CONGRESS FROM AMERICAN SAMOA

Thank you Mr. Chairman:

While Washington and much of the world is intently focused on the conflict in Afghanistan, Southwest Asia and the Middle East, it is also important that we not neglect other regions of the world that are vital to United States interests.

Such a region is Northeast Asia, where the United States has provided security for decades and continues to guard against possible conflict on the Korean Peninsula and in the Taiwan Strait, while engaging with the region's economic powers that set much of the global economic agenda. I commend you, Mr. Chairman, for calling this hearing today to examine relations with China, Japan, Korea and Russia after the terrorist attacks of September 11th and I join you in warmly welcoming to the committee our distinguished panel of witnesses.

Mr. Chairman, some have argued that the horrific terrorist attacks on America's World Trade Center and Pentagon, and the international war on terrorism that resulted, have the potential to fundamentally alter our relations with nations in Northeast Asia.

In looking at China, it was not too long ago that tensions with the PRC ran extremely high over the EP–3 aircraft incident. Yet today, China's President Jiang Zemin has joined President Bush in unequivocally condemning the terrorist attacks and contributing to U.S.-led efforts to combat terrorism. China has played a significant role by sharing intelligence and sending over a team of counter-terrorism experts to Washington, supporting anti-terrorism resolutions in the U.N. Security Council and providing humanitarian relief aid to Afghan refugees, among other things.

In the aftermath of the attacks, Japan's Prime Minister Koizumi Junichiro has also stepped forward to aid U.S. anti-terrorism efforts. Unlike Japan's inaction during the Gulf War, where only funds were contributed, Japan has enacted measures authorizing its Self-Defense Forces to participate by providing logistical support and intelligence to U.S. counter-terrorism military operations. I have long felt that Japan as a democracy and world power must shoulder its fair share of the military burden to provide international security, and this development is a significant step forward in Japan becoming a "normal" nation.

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Thank you, Mr. Chairman, for the opportunity to briefly comment on these matters and I look forward to the testimony of our distinguished witnesses.

Mr. LEACH. Thank you very much, Eni.

Our five witnesses today are Mr. C. Fred Bergsten, who is Director, Institute for International Economics and who has contributed so impressively to the new architectural scale of the city.

We like your new building, Fred.

Ms. Bonnie S. Glaser, who is a consultant on Asian Affairs.

Mr. Brad Glosserman is Director of Research, Pacific Forum, Center for Strategic International Studies, who is joining us from Hawaii, as I understand it.

Welcome, Brad.

Mr. Victor Cha, who is Associate Professor, Department of Government and School of Foreign Service at Georgetown University.

And Ms. Celeste A. Wallander, who is Director and Senior Fellow, Russia and Eurasia Program at the Center for Strategic International Studies

Before going on, let me say we have a complicating factor on timing, just to place votes on the floor and there are going to be four to five, which means about a 45-minute circumstance. And so what

I would like to do, but if you would rather not I will defer and make another decision, but I would like to begin with Fred.

We will go 7 or 8 minutes, Fred, and then return. Is that acceptable to you?

And then we will go in the order in which I have introduced people, so the middle witness will be Brad who will be speaking from a distance. But why do we not begin?

Fred, please proceed.

And all of your statements will be placed in the record in full. Partly because of the voting circumstance, to the degree you can summarize in 7 minutes or so, it would be appreciated.

Fred?

STATEMENT OF FRED BERGSTEN, DIRECTOR, INSTITUTE FOR INTERNATIONAL ECONOMICS

Mr. BERGSTEN. I want to thank you for your kind comments on our architecture. I will hope to host you at our new home soon and give you a personally guided tour.

On today's topic, the events of September 11th not only have caused unprecedented security problems around the world and particularly here in the United States, but pushed our own economy and the world economy into recession. This is the first globally synchronized recession in 30 years. We therefore clearly need a coordinated global response to that problem.

Such a response would in fact be an appropriate parallel to the cooperative, multilateral response to the security dimensions of 9/11 and it seems to me something we should pursue with equal vigor.

In that context, the Northeast Asian countries, particularly Japan, China, but Korea as well, must play an important role and I have chosen three or four topics from the current environment which I think are of particular significance to U.S. interests, as well as to the world economy, to mention in my brief opening remarks today.

The first relates to the Japanese economy and particularly the fragility of its financial system. I continue to believe that it is the number one threat the world economy today, to the recovery of the United States, and therefore something we should be putting very high priority on trying to deal with.

The Japanese economy, of course, has been flat for 10 years. It is a lost decade of growth. Japan is now entering into its fourth recession in those 10 or 11 years. The main cause of this is now quite clear: an essentially bankrupt financial system.

I, and my colleagues, have done extensive research on the topic and have brought you a couple of our studies. We conclude that roughly 50 percent of the Japanese banking system is literally bankrupt on any reasonable accounting basis.

It will require something like 15 to 20 percent of the Japanese GDP to be spent by the Japanese government to recapitalize the banking system and put it on any kind of sound basis for the future. Indeed, my own view is that Japan should emulate President Roosevelt, who applied a bank holiday to a somewhat similar situation in the United States, in the 1930s. Our banks had to stay closed for 10 days. I would guess the Japanese could do it over a

long weekend, but something of that type will be needed. It may require one or two major bank failures in Japan to trigger it, but I think it will be essential.

There will be big effects on the world economy if Japan continues to dither. If Japanese banks do begin to go bankrupt, the rest of the banking system will have to withdraw their credits from around the world and repatriate in order to strengthen their balance sheets. That will have significant ripple effects on our own financial system and worldwide. It is something to be avoided if at all possible.

Therefore, as the U.S. pursues a multilateral strategy to deal with the global world recession, for example, in this upcoming weekend's meetings of the G–7 finance ministers and rescheduled IMF meetings in Ottowa, we should be pressing Japan to move very hard on this front.

Prime Minister Koizumi, as you mentioned, has taken very courageous stances, challenged traditional political sensitivities in Japan on the security side by in essence challenging some of Japan's constitutional limitations in order to support the security effort in Afghanistan and perhaps more broadly.

I would hope that the economic dimension of the issue would elicit similarly courageous efforts by Prime Minister Koizumi to deal with admittedly costly, and politically sensitive, issues in Japan on the economic and financial system. However, without that, I am afraid Japan will continue to drag the world economy, retard our own recovery, indeed, threaten financial stability on a global basis, and therefore be a major difficulty in dealing with the economic side of the world situation post 9/11.

The second issue I would mention is somewhat more structural and longer run. It is the continued proliferation of regional monetary and trade agreements throughout East Asia. Now, those arrangements are being developed and negotiated throughout East Asia as a whole, but the most crucial players in them are the Northeast Asians, Japan, Korea and China.

On the monetary side, you could characterize what is happening as the second coming of the Asian Monetary Fund.

You will remember a lot about that, Mr. Chairman, from your previous incarnation.

With a different name and different modality and much less aggressive approach, the East Asians are now, in my view, moving in the direction of creating an Asian Monetary Fund. They call it at this point the Network of Bilateral Swap Agreements, they are working out financial ties among payors of all the countries in the region, the amounts negotiated so far approximate $50 billion. They are getting bigger and I think they will be very significant.

All this could be quite positive, could be quite supportive, for the global system if it is done in the proper way. There are some in East Asia who want to do it in a way fully consistent with global institutions, the IMF and the like, but there are others who view it, at least over time, as becoming an alternative to the existing global institutions in which we have such a stake.

It is therefore, I think, very much in our interests to watch the situation closely—try to tilt it in a direction that will be consistent with the global systemic arrangements in which we have put so

much stake over time and try to make sure that it is both supportive of and consistent with a stable global monetary system which is so much in our interests.

The second aspect of the regional evolution is the negotiation of a vast proliferation of bilateral, plural-lateral, sub-regional trade agreements in East Asia. Japan has become particularly active in this area. They have completed a deal with Singapore, they have negotiated with Mexico, Chile, Canada, maybe Korea, maybe Southeast Asia as well.

China has now entered this arena very actively. Premiere Zhu Rongji proposed a year ago, a bilateral China-Southeast Asia free trade agreement that has recently been pushed very substantially and is moving, I believe, toward fruition. This is on top of lots of small bilateral agreements.

What is most significant is the concurrent discussion of a Northeast Asia free trade agreement among China, Korea and Japan and possibly what the Asians call a 10 plus 3, Asean plus Northeast Asian, free trade agreement that would cover all of East Asia, the Southeast Asians plus China, Korea, Japan.

We have done a study on the economic effects of all these possible permutations. Suffice it to say that a big East Asian agreement as a whole would almost immediately cut off something like $25 billion of U.S. exports to the region.

The point is that all of these arrangements, of course, discriminate against the United States. They have adverse effects on our economic interests. They are undertaken in part because we have been unable to negotiate multilaterally with them, either at APEC or through the WTO in recent years, because of the lack of any kind of fast track or trade promotion authority for the President. And therefore, in defending our interests in that area we want to both be sure that the arrangements again are consistent with the global and broader devices of which we are members, like APEC, but also position ourselves to resume active U.S. participation in multilateral trade negotiations.

The agreement at Doha in the last 48 hours to launch a new round in the WTO provides a way to do that, but we, of course, will be unable to do it unless we are able to give the President negotiating authority. That is why trade promotion authority, fast track as it has been known in the past, is so important and why it is imperative for the President and Congress to work out an agreement to get that authority.

Failing that, these continued arrangements in Asia, including Northeast Asia, will discriminate against our trade, hurt us economically and, perhaps more importantly from the standpoint of this Committee, run the risk of dividing the two sides of the Pacific, creating new institutional arrangements in East Asia that will divide that part of the world from us in a broader political sense.

Now, there are obviously limitations on how fast China, Korea and Japan are going to move toward any kind of new agreements among themselves. They have political problems, there are economic hesitations each have moving ahead, but these are serious initiatives, they are being pursued at head of state level, they are actively either under consideration or, in some cases, underway or

in other cases actually being completed. It is an area that we must keep our eye on very closely because of the big impact on both U.S. economic and foreign policy interests.

Thank you.

Mr. LEACH. Thank you, very much, Fred.

And, Bonnie, before turning to you, I think it would be unfair to get you started for a minute and interrupt, and so what we will do is recess for the votes on the floor and I think it could be 30 to 45 minutes and so I have to caution you on that.

The Committee is in recess.

[Recess.]

Mr. LEACH. If the Committee would come back to order.

Our next witness is Ms. Bonnie Glaser.

Ms. Glaser, please proceed.

STATEMENT OF BONNIE S. GLASER, CONSULTANT ON ASIAN AFFAIRS

Ms. GLASER. Thank you, Mr. Chairman, for the opportunity to take part in these hearings today.

I will focus my comments on the impact of the changed security environment on U.S. relations with China and the situation in the Taiwan Strait and I will also highlight several key issues and trends pertaining to China that have important implications for U.S. interests and U.S. policy and thus warrant continued close attention by Members of Congress.

The main theses of my remarks is that U.S. and Chinese interests overlap to some extent in combating terrorism. The reordering of American security priorities in the wake of the September 11th attacks has provided an opportunity for Washington and Beijing to work together toward a common goal and this has contributed to an improvement in the overall atmosphere of the bilateral Sino-U.S. relationship. However, U.S. and Chinese interests in fighting terrorism are not identical and in some important ways may potentially conflict.

Moreover, the longstanding areas of friction in the bilateral relationship remain unchanged and they require continued close attention as well as careful management. It is thus premature to conclude that Sino-American relations are on a steady and upward course.

There are several compelling reasons why it is in China's interests to side with the United States in this campaign against terrorism and I will briefly mention three.

First, obviously, maintaining a good relationship with the United States is indispensable for China's continued economic growth.

Second, in recent years, China concern about the Islamic separatist movement in Xinjiang has been on the rise. Although not all those who advocate separatism employ violent means, there certainly have been incidents of terrorist attacks and bus bombings by Uighur radicals. The Chinese now claim that about 1000 Uighur separatists have received training in bin Laden's camps in Afghanistan. I do not know about the reliability of that figure.

Third, China is increasingly dependent on imported crude oil and has a strong interest in stable, low oil prices as well as an unimpeded oil supply. If radical Islamic fundamentalism spreads to

major oil producing countries, this would drastically increase world oil prices and threaten to undermine China's economic development.

Beijing has contributed, I think, to the U.S. led global effort in important ways that should not be underestimated. Most of these have been on the diplomatic front and on the economic front. The Chinese have voted in favor of the anti-terrorism resolutions in the U.N. Security Council. I think importantly Jiang Zemin permitted the United States and President Bush to redirect the agenda of the Shanghai APEC meeting, which had originally been designed to showcase China's economic miracle, to the U.S.-led war against terrorism.

The standing committee of China's National People's Congress has just ratified the PRC's accession to the International Convention for the Suppression of Terrorist Bombings.

In the financial sphere, Beijing has promised to do its utmost to freeze the assets of terrorist organizations and cut off the flow of funds to terrorists. The Chinese just signed the International Convention for the Suppression of Financing of Terrorism. It remains to be seen whether they move to implementation in this regard and I think we should continue to watch it closely.

In the area of intelligence, the Chinese have been very forthcoming in providing information on terrorist networks.

And, finally, China has supplied a significant amount of food relief for refugees coming out of Afghanistan. They have announced 1.21 million in emergency aid to Pakistan, agreed to provide $121,000 in aid to the UNHRC and most recently announced that they would provide an additional 60 truckloads of humanitarian supplies valued at $1.7 million.

So this is not an insignificant contribution. The contribution has not been in the military sphere nor, as I understand it, has this Administration asked China to provide any military assistance.

As I said at the outset, although U.S.-Chinese collaboration to combat terrorism proceeds, the contentious issues in the relationship nevertheless remain and it is thus erroneous to conclude that Sino-U.S. relations are on a path to steady partnership. Differences on human rights persist, particularly freedom of expression and the freedom to voice and practice one's personal faith.

Another area of divergence is U.S. development and deployment of missile defense systems, which the Chinese continue to resolutely oppose.

I want to underscore that our differences in the area of proliferation should continue to be a major priority for the United States. Chinese arms sales around the world and Beijing's failure to adequately curb the proliferation of weapons of mass destruction remain intractable bilateral issues. I think our concerns now center mainly on Chinese exports of ballistic missile technology to Pakistan and exports of dual use technology to Iran that could be used not only for chemical but also for biological weapons.

And China also has yet to fulfill a promise that they made last November to publish a list of missile components barred from export and establish a system of enforcement.

As far as the impact of the September 11th events on the Taiwan Strait, my preliminary conclusion is that the tragic events have

had very little immediate impact on the situation across the Strait. The unfolding security cooperation between Beijing and Washington did trigger some uneasiness in Taipei. People were worried, the government was worried that U.S.-Chinese cooperation might in some way come at China's expense. That anxiety is understandable, since Taiwan has been the victim of past shifts in the U.S. view of its strategic interests in history.

There has also been concern in Taiwan that mainland China might take advantage of the opportunity created by Washington's political and military distraction to step up intimidation of Taiwan, but so far Taiwan's fears appear to be unfounded. The Bush Administration has reassured the government in Taipei that U.S. policy has not changed and that U.S. interests will not be sacrificed for the sake of achieving other pressing U.S. foreign policy goals.

Although military attention across the Taiwan Strait is not high, political differences nevertheless remain acute. Beijing is unyielding in its position that Taipei recognize the existence of one China before it will deal directly with the DPP government in Taipei and President Chen Shui-bian in Taiwan remains unwilling to agree to mainland preconditions for opening cross-strait talks, preferring instead to put all issues up for discussion. So the political stalemate endures.

On December 1st, there will be important elections in Taiwan. They will hold island-wide elections for legislatures and for local magistrates. No party, I think, is expected to win a majority of seats in the legislature and it is unclear whether this election will have any major impact on Taiwan's policy toward China or on cross-strait relations, but President Chen has promised to form a coalition government after the elections and the impact on the cross-strait situation would vary depending on the composition of the coalition and the policies that its members subsequently agree to pursue.

In my view, the standoff in relations between Beijing and Taipei probably will continue for at least another couple of years. A leadership succession is already underway on the mainland that is likely to distract Beijing's attention, along with other urgent domestic issues such as sustaining economic growth. China will hold its 16th Party Congress this fall and that will begin the process of generational change in China that will not be completed until the following March in 2003 when the National People's Congress is held.

I do want to underscore one positive sign for cross-strait stability and that is the growing economic and social interaction across the strait. Two-way trade reached more than $30 billion last year of which Taiwan enjoyed a surplus of $15 billion U.S. Taiwan investors have poured some $60 billion into the mainland since the late 1980s. Now, the figures range from $300,000 to $400,000 of Taiwan traders, merchants and manufacturers who have moved from Taiwan and have now set up residence in inner suburbs around Shanghai. The entry of China and Taiwan into the WTO is likely to lead to a further substantial increase in cross-strait trade. So although economic interdependence will certainly resolve the political impasse, it nevertheless is creating growing constituencies on both

sides of the strait that I think both need stability and predictability.

Clearly, the United States has a strong, abiding interest in the peaceful resolution of differences between Taipei and Beijing and we should continue to urge both sides of the straight to resume dialogue. Destabilizing actions by either side should be discouraged. The U.S., I believe, should avoid inserting itself in between Taiwan and China and we should steer clear of suggesting solutions to their disputes.

Most importantly, U.S. policy should remain clear and consistent to prevent misunderstanding and miscalculation in what remains a volatile and dangerous part of Northeast Asia.

Finally, Mr. Chairman and Members of the Subcommittee, what I would like to do is just highlight four key issues and trends pertaining to China that have important implications for U.S. interests and policy.

First, the implications of China's entry into the WTC. While clearly China's entry into the WTO will unquestionably have a positive impact on the China economy and society in the long run, I think it has to be recognized that in the short run there are bound to be some political and economic challenges that will be posed to the Chinese government. The pains of reform will be increased and the pressures on the government from society are likely to intensify.

I question the Chinese government's ability to cope with these short-term difficulties, given the inherently weak political system and rising social and political stress in China society.

U.S.-Chinese relations I think could also be challenged by increased friction in the areas of trade and human rights as a result of China's entry and adjustment of its entry into the WTO. So during this inevitable period of wrenching transformation in China, I think it is important for the U.S. to continue to promote rule of law, democracy, and human rights in China.

Secondly, we need to pay attention to China's leadership transition over the next 2 years. All the key figures at the top level of China's government will change, its premiere its President and the head of its National People's Congress. They will all retire, as well as the senior levels of the Chinese military. The person who is slated to replace President Jiang Zemin as not only President but as party secretary as well is basically a party functionary, Hu Jintao, largely unknown to the outside world and also this own people.

I think that it is very important that China have a smooth and stable leadership transition, not just for China's own people, but also for the interests of Northeast Asia and for the United States. Should that transition not go smoothly, it would have profoundly negative implications for the region and for the United States as well as for China.

Third, we need to be aware of the volatile mix of rising nationalism and anti Americanism in China. The Chinese public views the United States as increasingly posing obstacles to China's emergence as a great power and to the reunification of China and Taiwan. Events in recent years such as the 1999 bombing of the Chinese embassy in Belgrade and the more recent EP–3 collision this past April are viewed by most Chinese as evidence of American

hostility toward China and I think that the Chinese leadership has not yet made a convincing case to the Chinese people that it is in their country's interests to cooperate with the United States. Most Chinese certainly do not feel an urgent direct threat from terrorism, as do many Americans, so if the anti-terrorism campaign were to expand to the use of force against other countries, I think it might be difficult for Chinese leaders to sustain the support of the Chinese people for continued cooperation with the United States.

Fourth and finally is China's continued military build-up opposite Taiwan. Clearly, the PRC continues to enhance its military capabilities deployed opposite Taiwan at a measured but nevertheless steady pace and these forces are aimed primarily at intimidating Taipei, but they are also being shaped to combat both Taiwan and American forces in any potential conflict in the Taiwan Strait. China continues to build up its short-range ballistic missiles opposite Taiwan. They number today probably somewhere between 300 and 350 and you can compare that with 1995, 1996, when they numbered between 30 and 50, and this is especially alarming. Taiwan has no reliable defense against these missiles.

Chinese leaders have recently emphasized that they prefer to achieve reunification peacefully, but they continue to refuse to renounce the use of force against Taiwan and they have not abandoned the position that Taipei's indefinite postponement of talks with the mainland may invite a PRC attack.

So I think it is imperative that the U.S. continue to provide Taiwan with defensive weapons, but ultimately security for Taiwan will remain elusive in the absence of a political solution. The arms race underway in the Taiwan Strait is ignored at our own peril.

Mr. Chairman and Members of the Committee, thank you for giving me the opportunity to address these critical questions and I look forward to your comments and questions.

[The prepared statement of Ms. Glaser follows:]

PREPARED STATEMENT OF BONNIE S. GLASER, CONSULTANT ON ASIAN AFFAIRS

I. INTRODUCTION

Allow me to begin by thanking you, Mr. Chairman, and the members of this distinguished Subcommittee for the opportunity to take part in the hearings you are holding today on the topic of the situation in Northeast Asia following the catastrophic September 11 terrorist attacks and the beginning of what promises to be a long war against terrorism. I will focus my comments on the impact of the changed security environment on U.S. relations with China and the situation across the Taiwan Strait. I will also highlight several key issues and trends pertaining to China that have important implications for U.S. interests and policy and thus warrant continued close attention by Members of Congress. As a student and observer of Chinese security and foreign policy, I am looking forward to this timely and important exchange of views.

The main thesis of my remarks is that U.S. and Chinese interests overlap to some extent in combating terrorism. The re-ordering of American security priorities in the wake of the September 11th attacks has provided an opportunity for Washington and Beijing to work together toward a common goal and this has contributed to an improvement in the overall atmosphere of the bilateral Sino-U.S. relationship. However, U.S. and Chinese interests in fighting terrorism are not identical and, in some important ways, they potentially conflict. Moreover, the long-standing areas of friction in the bilateral relationship remain unchanged and they require close attention as well as careful management. It is thus premature to conclude that Sino-American relations are on a steady, upward course. As for relations across the Taiwan Strait, the political stalemate continues and is unlikely to be broken in the coming months,

but tensions are not high. The expansion of cross-Strait economic and social interaction provides both China and Taiwan with a growing stake in peacefully resolving their differences.

II. CHINA'S INTEREST IN COMBATING TERRORISM

As President Bush noted at the Asia Pacific Economic Conference in Shanghai last month, Chinese President Jiang Zemin's expression of condolences and his declaration of China's condemnation of the heinous crimes committed on September 11 were conveyed "immediately," and with "no hesitation" and "no doubt." Subsequently, Beijing responded in various ways to support the U.S.-led global effort to eradicate the scourge of terrorism. There are several compelling reasons why it is in China's interests to side with the United States in fighting against terrorism.

First, maintaining a good relationship with the U.S. is indispensable for China's continued economic growth. Without sustained high-levels of U.S. direct investment and an open U.S. market for Chinese goods, China's aspiration to become a middle-level developed country by 2050 will be difficult, if not impossible to realize. The preservation of a favorable security environment for China and the achievement of reunification with Taiwan are also in part contingent on the state of Chinese ties with the United States. Beijing seized on the opportunity presented by the tragedy of September 11 to mute differences with Washington and focus on a common security concern.

Second, in recent years, Chinese concern about the Islamic separatist movement in Xinjiang has been on the rise. Although not all those who advocate separatism employ violent means, there have been incidents of terrorist attacks and bus bombings by Uighur radicals. The Chinese claim that about 1000 Uighur separatists have received training in Bin Laden's training camps. Eliminating the Taliban government in Afghanistan might help eradicate the terrorist threat to China's western region.

Third, China is increasingly dependent on imported crude oil and has a strong interest in stable, low oil prices as well as an unimpeded oil supply. If radical Islamic fundamentalism spreads to major oil-producing countries, this will drastically increase world oil prices and threaten to undermine China's economic development. At present, China's annual oil imports account for nearly a third of the country's total oil consumption. As the economy develops, the demand for oil is expected to increase sharply, as efficiency demands require China to rely less on coal. Demand for oil in China is forecasted to increase sharply in the coming decades and the total volume of China's oil imports by 2020 will likely account for at least half of its total oil consumption. In 1999, China's oil imports from the Middle East accounted for 46.2 percent of its total oil imports, including Muslim countries such as Iran, Oman and Saudi Arabia.

III. BEIJING'S CONTRIBUTION TO THE GLOBAL ANTI-TERRORIST CAMPAIGN

China's has contributed to the U.S.-led global effort to punish the perpetrators of the September 11 attacks and exterminate terrorism in the following ways:

- On the diplomatic front, the Chinese have voted in favor of anti-terrorism resolutions in the United Nations Security Council. In mid-September, they dispatched a vice foreign minister to Pakistan to shore up that country's support for opposing Bin Laden and the Taliban government in Afghanistan that provides him sanctuary. Beijing also agreed to re-direct the agenda of the Shanghai APEC meeting, originally designed to showcase China's economic miracle, to the U.S.-led war against terrorism.
- In the financial sphere, Beijing has promised to do its utmost to freeze the assets of terrorist organizations and cut off the flow of funds to terrorists.
- The Chinese have been helpful in providing intelligence and information on terrorist networks. Such information might come from spies monitoring the activities of terrorists or from listening posts capable of eavesdropping on communications in Afghanistan that China maintains on its northwestern border. China has also sealed its border with Afghanistan and is moving toward agreeing to a U.S. request to open an FBI office in Beijing.
- China has supplied a significant amount of food relief for refugees from Afghanistan. Beijing announced $1.21 million in emergency aid to Pakistan; agreed to provide $121,000 to UNHCR; and announced it will provide an additional 60 truckloads of humanitarian supplies valued at $1.7 million.

There is more that Beijing can do to support the global anti-terrorism campaign. For example, the Chinese could offer the use of Chinese airfields and airspace to

support humanitarian or combat operations against Afghanistan. They could also seek to control exports of small arms that might reach terrorist groups. The Chinese and the other five members of the Shanghai Cooperation Organization (Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan) could invite the United States to participate as an observer in the SCO, a regional multilateral organization that was created in part to strengthen cooperation to curb terrorism. SCO members have pledged to share information and plan to establish a "Shanghai Cooperation Organization Anti-terrorist Center" in Bishkek. They will also cooperate to deter illegal trading of weapons and narcotics, illegal immigration, and other forms of international crime.

IV. U.S.-CHINESE INTERESTS OVERLAP BUT DIFFERENCES PERSIST

While U.S. and Chinese interests converge in the eradication of terrorist training camps and support networks in Afghanistan, the two countries do not necessarily agree on the best means to achieve this objective. China has not explicitly endorsed the U.S. military action in Afghanistan and continues to warn that anti-terrorist actions should have "clearly defined targets," should "hit accurately," and "avoid innocent casualties." If the war against terrorism is widened to target other countries, China's support may waver, especially if the U.S. seeks global cooperation in imposing sanctions and curtailing business with these countries. Chinese firms have significant business interests in Iran and to some extent with Iraq, and may be reluctant to end these ties. Moreover, American and Chinese broader national security interests beyond exterminating terrorists are by no means identical. Beijing doesn't want the U.S. global campaign against terrorism to bolster America's position as the sole superpower in a unipolar world. And the Chinese worry that the U.S. will gain a permanent military foothold close to China's borders, in Central Asia as well as in Afghanistan. Another area of divergence is U.S. development and deployment of missile defense systems, which the Chinese continue to resolutely oppose.

The Chinese have not sought quid pro quos for their positive contributions to the war against terrorism, but they hope—perhaps even expect—that there will be some payback. Beijing anticipates that the U.S. focus on terrorism will mute American criticism of its harsh treatment of Uighur separatists in Xinjiang. While the U.S. should support Chinese efforts to root out and punish terrorists, we should be wary of Beijing's practice of lumping together terrorists, separatists and dissidents. "The war on terrorism," Bush asserted in Shanghai, "must never be an excuse to persecute minorities."

Beijing also hopes that by backing the war against terrorism, Washington will be more sympathetic and accommodating to Chinese aspirations for reunifying the Mainland with Taiwan. The Chinese would like to see a reduction in U.S. arms sales to Taiwan and U.S. pressure on Taiwan President Chen Shui-bian to accept Beijing's "one-China principle" and to enter into negotiations with the Mainland. Trade-offs involving Taiwan's security must not be entered into. The United States should remain firm in its commitment to assist Taiwan in maintaining a sufficient self-defense capability, as articulated in the Taiwan Relations Act. The PRC continues to deploy forces across the Taiwan Strait specifically aimed at Taiwan—and at U.S.—capabilities. The provision of adequate weapons to Taiwan to defend itself remains an important part of America's policy aimed at deterring the use of force and promoting a peaceful resolution of cross-Strait differences. The Bush administration has appropriately reassured Taipei that Chinese assistance in the US-led anti-terrorism coalition will in no way affect US policy towards Taiwan, including arms sales to the island.

The common menace of terrorism has provided an opportunity for U.S.-Chinese collaboration on a security matter that is of concern to both countries, although the urgency is far greater for Washington than it is for Beijing. At the same time, the issues that divide the U.S. and China remain and thus it is erroneous to conclude that Sino-American relations have been fundamentally transformed or are on the path to a steady partnership. Differences on human rights persist, particularly freedom of expression and the freedom to voice and practice one's personal faith. Tibet is another area of divergence. The U.S. should unfailingly continue to support the preservation of Tibet's unique religious, cultural and linguistic identity and the protection of the human rights of all Tibetans. We should also continue to be, clear and straightforward with China about our interests in maintaining freedom of navigation in international waters and airspace.

Chinese arms sales around the world and Beijing's failure to adequately curb the proliferation of weapons of mass destruction are also contentious bilateral issues. U.S. concerns now center mainly on Chinese exports of ballistic missile technology to Pakistan and exports of dual-use technology to Iran that can be used for chemical

and biological weapons. The current military conflict in Afghanistan and the threat of WMD terrorism have transformed these issues from abstract proliferation concerns into concrete threats to American and other human lives. If Pakistan's nuclear weapons fall into the hands of Islamic terrorists, the blame will be laid on Beijing, which provided substantial assistance to Pakistan's nuclear weapons program in the 1980s. China also has yet to fulfill a promise made last November to publish a list of missile components barred from export and establish a system of enforcement.

V. POLITICAL STALEMATE LIKELY TO PERSIST ACROSS THE TAIWAN STRAIT

The tragic events of September 11 have had little, if any, immediate impact on relations across the Taiwan Strait. Unfolding security cooperation between the U.S. and China to counter terrorism has created uneasiness in Taiwan, however, where many are worried that U.S.-Chinese cooperation could come at Taipei's expense. This anxiety is understandable, since Taiwan has been the victim in the past of shifts in the US view of its strategic interests. There is also concern in Taiwan that the Mainland may take advantage of the opportunity created by Washington's political and military distraction to step up intimidation of Taiwan or cause instability on the island.

So far, Taiwan's fears appear to be unfounded. The Bush administration has reassured the government in Taipei that its policy has not changed and that Taiwan's interests won't be sacrificed for the sake of achieving other pressing U.S. foreign policy goals. China's strategy and tactics toward Taiwan also show no signs of revision. Beijing continues to adhere to a policy toward Chen Shui-bian of "listening to his words and watching his deeds," while pursuing "united front" tactics of expanding contacts with Taiwan's opposition parties and wooing businessmen and investors.

Tensions across the Strait are not high, but political differences remain acute. Beijing continues to insist that Taipei recognize the existence of one China before it will deal directly with the DPP government in Taiwan. President Chen Shui-bian remains unwilling to agree to the Mainland's preconditions for cross-Strait talks, preferring instead to put all issues up for discussion. He has questioned the PRC's interpretation of a verbal agreement between the two sides in 1992 as a "consensus" on the one-China principle. Chen continues to call for cross-strait reconciliation on the basis of the principles of democracy, parity, and peace, and demands that the will and right of choice of the 23 million people of Taiwan be respected and upheld.

The downturn in Taiwan's economy in the past year and sharp political infighting which has hampered the ability of President Chen to work effectively with the legislature to implement his agenda of political and economic reform have ironically contributed to the enhancement of stability across the Strait. Beijing sees Taiwan as mired in domestic difficulties and thus unable to take provocative separatist actions. Time is once again judged to be on China's side as Taiwan's economic dependence on the Mainland increases concomitant with an expansion of cross-Strait social and cultural interaction.

On December 1, Taiwan will hold island-wide elections for legislators and local magistrates. Following the elections, President Chen has pledged to form a coalition government. In one possible scenario, a coalition comprising elements of the Kuomintang and the People's First Party may produce a compromise on a pro-active policy toward the Mainland, particularly in the economic sphere. Beijing may then be persuaded that there are potential benefits to ending its policy of isolating the ruling party in Taiwan and there may be a window of opportunity for a breakthrough in the cross-Strait stalemate. An alternative outcome of Taiwan's elections could be an alliance between the DPP and the recently formed Taiwan Solidarity Union, backed by former Taiwan President Lee Teng-hui, which would diminish the likelihood of new flexibility emerging in the policies of both sides of the Strait and reduce the odds of a resumption of cross-Strait dialogue in the near term.

In my view, the standoff in relations between Beijing and China will probably continue for another year or so. A leadership succession is already underway on the Mainland that is likely to distract Beijing's attention along with other urgent domestic issues such as sustaining economic growth and preserving political and social stability. The 16th Party Congress will be held next fall that will begin the process of generational change in China. The selection of new party and government leaders will not be completed until the National People's Congress in March 2003. The task of charting a course for China's future, including its relationship with Taiwan, will likely fall, to China's fourth generation leaders.

One positive sign for cross-Strait stability is the growing economic and social ties across the Strait. Two-way trade reached more than $30 billion dollars last year, of which Taiwan enjoyed a surplus of US$15 billion. Taiwan investors have poured some US$60 billion into the Mainland since the late 1980s. More than 300,000 Tai-

wan merchants, manufacturers and traders have chosen to reside on the Mainland. The impending entry of China and Taiwan into the WTO is likely to lead to a further substantial increase in cross-Strait trade. Although economic interdependence will not in itself resolve the political impasse, it is creating growing constituencies on both sides of the Strait that need stability and predictability.

Last week, Taipei lifted the controls on cross-strait economic and trade exchanges—including scrapping the $50 million ceiling on individual Mainland investment cases—which promises to further promote direct investment and trade. By ending the "no haste, be patient" policy that Lee Teng-hui put in place to limit investment in the Mainland and prevent China from gaining access to Taiwan's technologically sophisticated industries, Taiwan hopes that companies will send home more of their profits from China.

New regulations are expected to be issued soon that will determine which categories of technologies to allow into China. Some controls are likely to remain in place in the computer industry, for example on the manufacture of semi-conductors, as well as on infrastructure projects like bridges, and roads, which run the risk of helping the PLA deploy forces along the Straits. The Taiwan government also plans to urge businesses to adopt a policy of greater regional diversification to avoid excessive financial risk as well as over-dependence on the Mainland that may increase Taiwan's political vulnerability. Government efforts to circumscribe investment in China are likely to run into the perennial determination of the business community to seek profit, however, and are unlikely to be any more successful in the future than they have been in the past.

The United States has a strong, abiding interest in the peaceful resolution of differences between Taipei and Beijing. We should continue to urge both sides of the Strait to resume dialogue as soon as possible. Destabilizing actions by either side should be discouraged. The U.S. should avoid inserting itself in between Taiwan and China and steer clear of suggesting solutions to their disputes. Most importantly, U.S. policy should remain clear and consistent to prevent misunderstanding and miscalculation in what remains a volatile and dangerous part of Northeast Asia.

VI. KEY ISSUES AND TRENDS

Mr. Chairman and members of the Subcommittee, I would like to close my remarks by highlighting several key issues and trends pertaining to China that have important implications for U.S. interests and policy and thus warrant continued close attention by Members of Congress.

U.S. and Chinese Security Interests, Converging or Diverging?

Facing a common threat of terrorism, Beijing and Washington have seized the opportunity to collaborate and cooperate to their mutual benefit. Whether this convergence of interests is sustainable and creates an environment in which differences in other areas of the relationship can be narrowed remains uncertain. China's desperate hopes for better Sino-U.S. relations have masked the potential worries that the Chinese harbor about the U.S.-led war against terrorism. These include: 1. Transformation of U.S.-Russian relations and a possible compromise on the Anti-Ballistic Missile Treaty that allows the U.S. to proceed with development and deployment of missile defense systems; 2. Improved U.S. relations with Central Asian states on China's borders with an enduring military/security feature; 3. Closer U.S. relations with Pakistan, China's long-standing ally; 4. A strong U.S.-led global coalition that may bolster America's position as the sole superpower in a unipolar world.

China's Pending Leadership Succession

Over the next two years, China's top leadership will change. President Jiang Zemin, Premier Zhu Rongji and National People's Congress Standing Committee Chairman Li Peng will retire, as will other lesser-known senior figures, both civilian and military. Vice President Hu Jintao, a party functionary who is largely unknown to the Chinese people as well as to the outside world, is likely to assume the important posts of party chairman and president. It remains uncertain whether Jiang Zemin will continue to exercise influence from the behind the scenes. Jiang is increasingly denigrated by the Chinese people for having accomplished little during his tenure and is under pressure to hand over power to the younger generation. A smooth and stable leadership transition is critical for China's future. Failure to carry out this process smoothly will have profound implications not only for the Chinese people, but also for the region and for American interests.

Growing Nationalism and Anti-Americanism in China

Rising nationalism and anti-Americanism are creating a very volatile mix in China. The Chinese public views the United States as increasingly posing obstacles

to China's emergence as a great power and to the reunification of China and Taiwan. Events in recent years such as the 1999 accidental bombing by NATO planes of the Chinese embassy in Belgrade and the collision between a Chinese fighter jet and a U.S. surveillance plane last April are viewed as evidence of American hostility toward China. The Chinese leadership has not made the case to the Chinese people that it is in their country's interest to cooperate with the United States. Most Chinese do not feel an urgent, direct threat from terrorism, as do many Americans. Chinese leaders will have great difficulty sustaining popular support for siding with the United States if the war in Afghanistan drags on with high civilian casualties and the global coalition begins to crumble.

Implications of China's Entry into the WTO

While China's entry into the World Trade Organization will almost unquestionably have a positive impact on China's economy and society in the long run, it should be recognized that in the short run WTO membership is bound to pose unprecedented economic and political challenges to the Chinese government. WTO entry will likely increase the pains of reform and intensify pressures on the government. The Chinese government's ability to cope with these short-term difficulties is not certain, due to an inherently weak political system and rising social and political stress in Chinese society. U.S.-China relations could also be challenged by increased friction in the areas of trade and human rights. During this inevitable period of wrenching transformation in China, the United States should continue to promote rule of law, democracy and human rights. I especially urge Members of Congress to support funding for rule of law initiatives in China. Helping China to create fair laws that conform to WTO's regulations will bring huge benefits to the Chinese people.

China's Military Buildup Opposite Taiwan

China's military deployments against Taiwan proceed at a measured, but steady pace. Its buildup of short-range ballistic missiles (currently numbering 300–350, compared to 30–50 in 1995–96) is especially alarming. Beijing regards these missiles as essential to deter Taiwan from moving toward a declaration of independence. Taiwan has no reliable defense against these missiles. Chinese leaders have recently emphasized that they prefer to achieve reunification peacefully, but they refuse to renounce the use of force against Taiwan and have not abandoned the position that Taipei's indefinite postponement of talks with the Mainland may invite a PRC attack. The U.S. must continue to provide for Taiwan with defense weapons, but ultimately security for Taiwan will remain elusive in the absence of a political solution. The arms race underway in the Taiwan Strait is ignored at our own peril.

Mr. LEACH. Well, thank you very much, Ms. Glaser.

Before turning to Hawaii for our next witness, I feel compelled to make just a one-sentence comment about the first part of your talk.

Now and again this Committee and Members of Congress have admonished other countries for human rights violations and China has sometimes been part of that, but I think we are all obligated to commend China for its humanitarian assistance at this time to the Afghan circumstance and we also want to express a certain appreciation for Chinese openness with the United States on the plight that we face on the terrorism front. And so I think it is very important if this country is ever to criticize another country it had better be alert to express appreciation when it is due, and I think it is clearly due the last several months.

Now we will turn to Mr. Brad Glosserman, who is Director of Research for Center for Strategic and International Studies.

Brad, you come to us via video and you are welcome to proceed at your pace.

STATEMENT OF BRAD GLOSSERMAN, DIRECTOR OF RESEARCH, PACIFIC FORUM, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Mr. GLOSSERMAN. Thank you. Aloha, Chairman Leach, distinguished Committee Members. It is an honor and a privilege to appear before you today. My hat is off to your techno crew for making this connection work. I probably should correct that introduction by noting that I am the Director of Research at Pacific Forum, which is the Honolulu arm of CSIS. I would hate to presume or reach out and grab any more authority than I have.

I think that despite all the changes that have occurred since September 11th, I think we have to realize that history did not begin anew on that day. And in Northeast Asia in particular, old animosities and tensions persist and, if anything, the aftermath of September 11th has the potential to sharpen that ill will.

In the comments that follow, I would like to examine Japan's reaction to September 11th, what it has done, what it has not done, outstanding issues Tokyo has with regional governments, and questions they pose for U.S. policy in the region.

As was pointed out, Japan's response to the terrorist attacks on the World Trade Center and the Pentagon was unprecedented. Prime Minister Koizumi cobbled together a very impressive response, a seven-point package that consisted of military support, diplomatic, financial, security, economic measures, humanitarian aid, in an unprecedented manner. I think the speed and deftness of Mr. Koizumi's response was stunning. In fact, as Admiral Dennis Blair, Commander in Chief of the Pacific Command pointed out, it was magnificent.

I think at the same time, however, there were some worries that perhaps Mr. Koizumi had gone a bit too far and would be unable to deliver and yet he confounded the critics and the skeptics in fact by shepherding through the package of legislation the Japanese Diet last month.

I think there are several reasons for this unprecedented response. First, of course, are the memories of the Gulf War themselves. I think people on both sides, supporters of the Alliance in both Tokyo and Washington, were extremely concerned about a repetition of those events and they worked behind the scenes in both capitals to ensure that there were no miscommunications and no confusion. The process was facilitated by the efforts of Japanese governments that have implemented legal and institutional changes since 1991 to ensure that Tokyo would not be caught off-guard again.

Then there is the matter of personality. Mr. Koizumi, who deserves a great deal of credit, has shown the right instincts, he has been a long-time supporter of the U.S.-Japan alliance, he has established a personal rapport with President Bush and made it a point of not only acting as a good ally but being seen as a good ally.

I think his response is even more important and more remarkable given the chaos that has descended upon Japan's Foreign Ministry in recent months. I think we should be careful and certainly pay attention to the chaos that seems to be reigning in that organization at this particular moment.

Now, all of that said, and mindful of your admonishment to give credit where credit is due, I am still a bit concerned about a couple of particular problems. The first is about the depth of public support for the coalition. There is indeed public support in Japan for the fight against terrorism. A recent poll shows 66 percent of people surveyed support some degree U.S. military retaliation, but only 8 percent support Japan's military cooperation.

The danger here is that we have to be careful as to how far we can assume that that support exists. I think that it is wide, but perhaps not very deep. I think that partly it is also a product of the deep-rooted pacifism that occurs and is found on both sides of the aisle, both in the opposition and within the Japanese government. I think many people worry that ties to the United States are a potentially entangling alliance and there is a danger that Japanese support for the United States campaign could evaporate if Japan itself becomes a target.

I think in this situation it is extremely important that the U.S. not be seen as pushing Japan to move too far too fast on the defense front. There is no consensus for bold steps toward what the Japanese call normalcy and I think here the Administration deserves credit. It has repeated at every opportunity that U.S. preferences notwithstanding this Administration will support whatever the Japanese people decide to do.

The second area of concern concerns economic policy. Since Dr. Bergsten has covered this, I would say I cannot disagree in the least. However, I am probably a bit more skeptical even than him about Japan's ability to act in a timely fashion.

More importantly, or just as important, I am also worried about the potential effects of United States attempts to push Japan to take action. I worry that the Japanese will see this as ingratitude on the part of the U.S. after all that Japan has done on behalf of the coalition.

I think we have already seen a sense of that when Trade Representative Zoellick made his comments about Japanese leadership for trade policy prior to the Doha round a couple of weeks ago. That seemed to have been the predominant response by Japanese I spoke to after that speech.

Economic reform depends primarily, of course, on the prime minister's will and I sense that he is determined to bring about change. Unfortunately, I am not precisely sure what that change consists of and I have fears that the prime minister does not either. But even if he is determined to bring about change, that is not sufficient. The Japanese people will have to support real reform and after a decade of stagnation and scandals, the public says it wants change.

Dig a little bit deeper, however, and there are questions. A number of surveys show that there has been increasing doubts and ambivalence about market oriented reform in Japan. I think, in short, the prime minister's stratospheric support levels notwithstanding, public support for a hard hitting plan is open to question and I think that clearly the costs involved in the bank holiday that Dr. Bergsten mentioned or even structural reform and the effect that would follow from that would probably even further diminish public support.

In other words, patience is going to be a virtue and it will be a necessity. Hopefully, Japan's long-suffering citizens are ready for the wait. The U.S. must be patient as well. There will be no quick fixes and Washington must be prepared for glacial progress on economic issues and any other contentious issues on the bilateral agenda.

Now let me move quickly to other problems in Northeast Asia and Japan's views of them.

An important aspect of September 11th is the way that it has shifted the diplomatic momentum in the region and I think that Mr. Koizumi has been the chief beneficiary of this new dynamic. Calls for action on the part of the United States have given Japan and the Koizumi government the cover they need to make controversial decisions about security policies.

I think to his credit the prime minister has responded well. His desire to act as a good ally to the United States has been matched by unprecedented diplomatic efforts to ally concerns of Japan's neighbors.

All of this year, Japan's relations with its two most important neighbors, China and South Korea, have been troubled. There have been trade disputes, economic disputes, fishing disputes, disputes over history textbooks, disputes over the prime minister's trip to the Yasakuni shrine. They have virtually paralyzed diplomatic relations between Tokyo and Beijing and seem to be unraveling much of the progress that has been made in the last few years between Seoul and Tokyo.

All of that changed on September 11th. Complaints and objections by Japan's neighbors became less important in the face of demands from its key ally. Neither China nor South Korea wanted to be seen as blocking U.S. efforts to build a coalition against terrorism and I think that simple fact overcame resistance in both Seoul and Beijing to Tokyo's overtures to resume more normal relations.

I think it is extremely difficult to appreciate the anger and hurt that many Koreans feel toward Japan right now. Not only is there pain over the Japanese occupation of Korea, but there is a more recent betrayal as well.

President Kim Dae-jung made a courageous outreach to his Japanese counterpart in 1998 and the two men signed a historic agreement to put the past behind them. This year's controversies have raised basic questions about Japan's commitment to that agreement. This antagonism is a critical feature of Northeast Asia diplomacy. Korean mistrust of Japan has intensified and, moreover, Koreans are asking the United States to get involved. They see the U.S. as encouraging Japanese efforts to assume a larger role in regional security affairs and they want us to nudge Japan to do the right thing.

Now to look ahead very briefly.

First, the Korean Peninsula is in transition. I think the process will take years, but unification is somewhere down the line. When that occurs, there will be a fundamental rethinking of Northeast Asia security arrangements and the U.S. presence will be a basic element of that debate.

The United States, Japan and South Korea are natural allies with shared values, a half century of cooperation and similar social, political and economic systems, but tensions between Tokyo and Seoul threaten to undermine any long-term security agreement for the region. A unified Korea that leans toward China would be a shock to Japan.

Turning to Russia, Japan has made little progress in its attempts to normalize relations with Russia and the principal stumbling block has been the northern territories, the islands seized by the Soviet Union in the aftermath of World War II. As long as that continues to act as a bar to any attempt to normalize relations, there will still be a large gap in the Northeast Asian regional dynamic.

And then there is China. I do believe that relations between the two countries will become more contentious in the years ahead. I do not anticipate military tensions, but Japanese defense planners have become more blunt about the potential threat posed by China. Most briefly China's rise goes to the heart of national identity and as China returns to the world stage, it threatens to eclipse Japan. I think we cannot understand how significant that is and it is an issue that perhaps we can discuss in some detail later.

Nevertheless, in sum, Japan seems stuck while other nations in Northeast Asia are moving forward in their relationships. Each of the regional governments is developing new political and economic ties and that dynamic creates momentum of its own. Japan, it seems to me, is left out. I am concerned about the long-term consequences of this situation and worry about the response it could create in Japan.

Now, finally, challenges for the United States. I think Japan faces real tests in the future. The magnitude of the challenges will strain the country's decision makers and its allies and friends. The United States has to understand the pressures that the Tokyo government is under and help deal with them. On the economic front, that means prodding the Japanese to reform, but without the hectoring that has so frequently characterized bilateral dialogue.

On the security front, it means accepting the limits imposed by Japan's constitution and resisting the impulse to push Tokyo farther than the Japanese people are willing to go. We have performed well so far, but pressures will mount in the future.

I think it is important that the United States work with Japan to pursue trilateral dialogue. With China, Japan and the United States need to help ease Chinese concerns about Japan's role in the region and the mission of the U.S.-Japan alliance. Intelligence sharing and coordination of anti-terrorism efforts that have begun could provide a foundation for further cooperation.

A similar effort is already underway in South Korea in the trilateral coordinating and oversight group. I think, however, the agenda must be broader and we must go much further. The depth of Korean anger toward Japan that has been demonstrated in recent months reveals that building better relations between the two countries must be broad based and include as wide a cross section of the two societies as possible.

The U.S. has to encourage both governments to work together to overcome the past. Ultimately, despite our desire to stay out of this

dispute, the U.S. is involved. Both countries are allies and we want to have good relations if we are realize our policy objectives in this region.

I think an essential element of this is the Track 2 process that my organization, Pacific Forum CSIS has been pushing in East Asia. I have been very privileged to work with both Mr. Cha and Ms. Glaser on a number of Track 2 initiatives and I look forward to working with them in the future.

I think these meetings have played an important role in facilitating dialogue in various countries of the region in helping moving ideas from the formative stage to the official level.

Finally, I think the goal is assuaging fears of Japanese intentions among its neighbors and proving that talk of peace is not cover for more calculated strategies. At the same time, we must assure the Japanese of U.S. support as it goes through a period of wrenching adjustment. As always, patience will be critical, as will perseverance. It promises to be a frustrating process.

Mr. Chairman, Members of the Committee, thank you for giving me this opportunity to rush through my opinions and to address you from Honolulu on this sunny morning.

Thank you.

[The prepared statement of Mr. Glosserman follows:]

PREPARED STATEMENT OF BRAD GLOSSERMAN, DIRECTOR OF RESEARCH, PACIFIC FORUM, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Chairman Leach, distinguished committee members, it is an honor and a privilege to appear before you today, courtesy of modern telecommunications technology, to discuss Northeast Asia in the wake of the Sept. 11 terrorist attacks. For many Americans, it seems like the world became a different place after those vicious and horrific attacks. While the United States may seem more vulnerable than ever before, it is vital that we recognize that history did not begin anew on that fateful day. In Northeast Asia in particular, old animosities and tensions persist. If anything, the aftermath of Sept. 11 has the potential to sharpen that ill will. The economic impact of the attacks creates new urgency for Japan to get its economic house in order. While there are more distinguished panelists here to comment on that particular problem, I am not optimistic. Even in the best of scenarios, recovery will take several years and will require difficult and courageous choices. I am skeptical of the Japanese government's ability to do just that.

In the comments that follow, I would like to examine Japan's reaction to the Sept. 11 attacks, both what it has and hasn't done, the outstanding issues Tokyo has with regional governments, and the questions they pose for U.S. policy in the region.

JAPAN'S RESPONSE TO SEPT. 11

Japan responded to the terrorist attacks on the World Trade Center and the Pentagon with unprecedented speed. Upon hearing of the strikes, Prime Minister Koizumi Junichiro condemned the attacks, pledged $10 million in aid and said he would stand beside President Bush when the U.S. retaliated. Within a week, the Japanese government had cobbled together a seven-point program to respond to the crisis. It included measures allowing the Self-Defense Forces to provide logistical support to the U.S. military in the event of a retaliatory strike; strengthening security measures at important facilities in Japan; dispatching Japanese ships to gather information; strengthening international cooperation over immigration control; provision of humanitarian and economic aid to affected countries, including emergency assistance to Pakistan and India; assisting refugees fleeing areas that might be hit by U.S. retaliation; and cooperation with other countries to ensure stability in the international economic system. Pursuant to that plan, Japan provided $40 million in emergency assistance to Pakistan, and dispatched envoys to Iran and Pakistan to help build support for the U.S.-led coalition against terrorism.

In addition, the Japanese government announced that it would send warships to collect intelligence in the Indian Ocean and would provide support for U.S. vessels heading for battle stations. The Prime Minister also promised to push enabling leg-

islation through the Japanese Diet that would allow the government to implement that package in its entirety

Nearly two weeks after the attacks, Mr. Koizumi went to the United States to meet President Bush and pay his respects to the victims. Some advisers were concerned about the delay; the Prime Minister was one of the last U.S. allies to visit Washington and offer support to the U.S. Nonetheless, his meeting with President Bush went extremely well. Mr. Koizumi said, "we Japanese firmly stand behind the United States to fight terrorism." To emphasize the point, he spoke in English. In a statement designed to banish the ghosts of the Gulf War, the Prime Minister was explicit: "It will no longer hold that the Self-Defense Forces should not be sent to danger spots. There is no such thing as a safe place."

The speed and deftness of Mr. Koizumi's response were stunning. Adm. Dennis Blair, commander in chief of the Pacific Command, called it "magnificent." But there were also worries that the Prime Minister would prove unable to deliver on his promises. There is powerful opposition in Japan to high-profile action in support of the U.S.-led coalition, or any moves that might entail a military response. Many in Japan are acutely sensitive to anything that could undermine Article 9 of the Japanese Constitution, the famous "no war" clause. That resistance comes not only from the "official" opposition (those parties outside of the ruling three-party coalition that is made up of the Liberal Democratic Party (LDP), the Conservative Party and New Komei), but also from powerful elements within the coalition itself.

And yet, Mr. Koizumi delivered. The Japanese Diet last month passed legislation that allows the government to do all that it has pledged. Japan watchers, worried about a repeat of Tokyo's response to the Gulf War, were dumbstruck.

There are several reasons for this unprecedented response. The first is the Gulf War fiasco itself. That memory shaped the reactions of supporters of the alliance in both Tokyo and Washington. Few administrations have had as many well-connected and knowledgeable Japan hands as this one. There are close personal ties between those individuals and Mr. Koizumi's team in Tokyo. They have worked behind the scenes in both capitals to ensure that there was no missed communications and no confusion. That process was facilitated by the efforts of Japanese governments that have implemented legal and institutional changes since 1991 to ensure that Tokyo is not caught off-guard again.

Then there is the matter of personalities. Mr. Koizumi has shown the right instincts. He is a long-time supporter of the U.S.-Japan alliance. He has established a personal rapport with President Bush and understands the importance not only of being a loyal ally, but also of being seen as a loyal ally. Both the U.S. and Japan are fortunate to have him in office in these trying times.

Mr. Koizumi's performance is even more remarkable given the disarray and chaos that has descended upon Japan's Ministry of Foreign Affairs. There is internecine warfare between ministry bureaucrats and Foreign Minister Tanaka Makiko. While the events themselves sound like farce, the result is deadly serious: The Foreign Ministry has been marginalized at a critical time. Given the complexities of Ms. Tanaka's relationship to the Prime Minister and the signals that would be sent by her dismissal, this situation may continue for some time. It is important that U.S. policymakers recognize the constraints that Japan is operating under when its Foreign Ministry is seemingly paralyzed.

CLOUDS ON THE HORIZON

That said, and I don't mean to be ungrateful, there are still some serious problems ahead. The first concerns popular support for the coalition. There is public support in Japan for the fight against terrorism. A recent poll shows 66 percent of people surveyed support to some degree U.S. military retaliation for the terrorist attacks. I am not sure how deep that support goes, however, since only 8 percent are in favor of Japanese military cooperation. Japan's response to Sept. 11 has many roots, but it is often viewed through the prism of the U.S.-Japan relationship. That is, after all, what the Gulf War fears are about. Of course, some people, Mr. Koizumi among them, understand that terrorism is a threat to Japan's national interests. Many others, however, worry that ties to the U.S. are a potentially "entangling alliance." There is a danger that Japanese support for the U.S. campaign could evaporate if Japan itself becomes a target.

That provides the context for some of Mr. Koizumi's comments after Sept. 11. While showing his support for the U.S., he was careful to insure that there would be no misunderstanding about what Japan would do for its ally. Mr. Koizumi made it clear that Japan would be bound by its constitutional limits. According to the Prime Minister, "we are making preparations for a new law that will enable Japan

to make all possible contributions on the condition that they do not require the use of force."

In this situation, it is extremely important that the U.S. not be seen as "pushing" Japan to move too far, too fast on the defense front. There is no consensus for bold steps toward what the Japanese call "normalcy." Here too, the administration deserves credit: It has repeated at every opportunity that, U.S. preferences notwithstanding, the administration will support whatever the Japanese people decide.

The second area of concern is in economic policy. Since other panelists are far more capable of commenting than I on this topic, I will be brief.

The U.S. economy was slowing even before the Sept. 11 attacks. The strike at the heart of the U.S. financial industry and the blow to the nation's confidence, as well as that of consumers, will magnify recessionary pressures. The world needs Japanese growth now more than ever. I take heart from the comments of LDP Secretary General Yamasaki Taku, who has noted that revitalizing the economy is as important as the terrorism bill in terms of global welfare in the wake of the Sept. 11 attacks. "Japan's role in preventing a global economic slide is as important as dispatching the SDF overseas," he has said. The Japanese government has promised to ensure stability: immediately after the attack, the Bank of Japan, the United States Federal Reserve and the European Central Bank pumped extra liquidity into markets and worked together to ensure financial stability and security. That is not going to be enough.

The world economy needs a boost—it needs Japan to regain its footing and to become an engine of growth. There is little likelihood of that in the near future. The Bank of Japan has revised its forecast for 2001 from 0.8 percent growth to negative 1 percent. It also expects negative growth next year. Worse, it expects deflation of about 0.8 percent over those two years. In September, industrial production registered the largest decline in 26 years and has declined for three consecutive quarters. Unemployment hit a record high 5.3 percent with 3.57 million people officially unemployed. However, Japan's Ministry of Public Management has conceded that the real unemployment rate may be as high as 10.4 percent, or more than twice the official figure.

At this point, the outlook for Mr. Koizumi is grim. The Prime Minister had promised to end the government's reliance on massive public works spending to try to stimulate the economy, which coincidentally provides money for his party's traditional constituencies. One of his few concrete electoral pledges was a cap on government spending at 30 trillion yen. The terrorist attacks make such restraint look unlikely as the call for stimulation comes from virtually every quarter.

Moreover, reform as envisioned by the prime minister—or at least as many think it would be envisioned—would necessitate restructuring, including the closure of unprofitable businesses and inefficient public sector organizations. In other words, there would be significantly more unemployment. That is unlikely after Sept. 11.

There is rising concern about Japan's unwillingness to tackle its bad debt problem, which threatens to overwhelm its banking sectors. The administration is rightfully concerned that vulnerability in Japan's financial system could become a global weakness as well. But I worry that complaints about Japanese inaction will be seen as ingratitude on the part of the U.S. "after all that Japan has done on behalf of the coalition." When U.S. Trade Representative Robert Zoellick voiced his mounting frustrations three weeks ago and blasted Japanese policy in the lead up to the Doha trade talks that was one of the main responses. The U.S. needs to be concerned about this kind of perceived tradeoff between security and economic policy. It is certainly part of the Japanese domestic political calculus.

POLITICS IN JAPAN

While Japanese politics can be esoteric—or numbing—it is important to understand Mr. Koizumi's position. He is a weak Prime Minister; all Japanese Prime ministers are. But he is perhaps weaker than usual because he has relied on public support to claim the top rung. That is virtually unheard of in Japan.

The Prime Minister presents himself as a reformer, and revels in his image as a rebel, but it is unclear what he really believes in. He has spoken passionately about dismantling the postal savings system and has supported limits on government spending (which would end the pork barrel politics that has been the foundation of LDP rule), but the details of his reform agenda have been hard to find. Part of that is politics: The Prime Minister has not gotten specific to avoid antagonizing supporters who might be adversely affected by his plans. Others question whether Mr. Koizumi really believes in much; he is said to be guided by instinct and has little inclination for the nitty gritty and the down and dirty of Japanese politics.

But real "reform" means fighting the vested interests that have been the mainstays of LDP support. In other words, the LDP has been riding the coattails of the man who is committed to undermining its existence. The LDP old guard is well aware of this irony, and has muted its criticism to exploit Mr. Koizumi's popular appeal. They are now showing their gratitude by opposing his agenda; having used the prime minister to their advantage in last July's Upper House elections, they have dispensed with the niceties and are getting down to business.

The bottom line is that Mr. Koizumi is now going to be tested because the real opposition to his program is emerging—and that opposition comes from within his own party. Mr. Koizumi will have to genuinely believe in reform and be willing to fight for it if he is to prevail.

The Prime Minister's determination is necessary, but it is not sufficient to change Japan. To do that, the Japanese people have to support real reform. After a decade of stagnation and scandals, and a year of hapless Prime Minister Mori Yoshiro, the Japanese public says it wants change.

The readiness to actually stomach the pain that change will bring is another matter, however. Survey data from the Dentsu Institute for Human Studies has shown increasing ambivalence about market-oriented reforms in Japan in the latter half of the '90s as calls for change have been matched by rising levels of unemployment. Recent polls show similar doubts about the wisdom of reform. In short, the Prime Minister's stratospheric support levels notwithstanding, public support for a hard-hitting plan is open to question.

Complicating the picture is the likelihood of a realignment of domestic politics in the future. Just as parts of Mr. Koizumi's reform agenda alienate members of his own party, they appeal to members of the opposition—the Liberal Party and the Democratic Party of Japan. Many of these politicians were members of the LDP and are eager to return to power; their reformist inclinations could overcome whatever animosity still lingers as a result of their leaving the party in the first place. The Democratic Party is especially vulnerable to a split, since it retains ties to the labor unions (half of its winners in the last election in July were union representatives), which are likely to bear the brunt of reform. The behind-the-scenes maneuvers to line up support will intensify as the stakes grow.

The many uncertainties and the one real certainty (spirited opposition from the LDP old guard) guarantee that the reform process will be slow. The Prime Minister and his team are talking about two- to three-year time horizons.

In other words, patience is going to be more than a virtue—it will be a necessity. Hopefully, Japan's long-suffering citizens are ready for the wait. The U.S. must be patient too. There will be no quick fixes and Washington must be prepared for glacial progress on economic issues, or any other contentious items on the bilateral agenda. The opposition (both within his party and outside) will use every issue they can to beat the Prime Minister and the constellation of security concerns, including constitutional reform, is a big stick. The stakes are high, which means the fighting should be vicious. The U.S. should be ready to support its ally no matter what it chooses to do, but Washington cannot allow itself to be drawn into the fray.

KOREA PROBLEMS

One important aspect of 9–11 is the way that it has shifted the diplomatic momentum in Northeast Asia: Mr. Koizumi has been the chief beneficiary of the new dynamic in the region. The calls for action on behalf of its American ally have given Japan and the Koizumi government the cover they need to make controversial decisions on security policies. To his credit, the Prime Minister has responded well: his desire to act as a good ally to the United States has been matched by unprecedented diplomatic efforts to allay the concerns of Japan's neighbors.

Japan's relations with its two most important neighbors, China and South Korea, have been troubled since the spring. There were many sources of friction: a controversy over middle-school history textbooks, trade disputes, fishing disputes, and the prime minister's trip to the Yasukuni Shrine in August. The difficulties virtually paralyzed diplomatic relations between Tokyo and Beijing, while relations between Seoul and Tokyo seem to be unraveling. Both governments had rebuffed the Prime Minister's attempts to meet and explain his positions. The situation had reached the point where Mr. Koizumi was even prepared to skip the annual opening session of the United Nations General Assembly, preferring instead to go to Southeast Asia where he would have received a warmer welcome.

All that changed on Sept. 11. Complaints and objections by Japan's neighbors became less important in the face of demands from its key ally. Equally important, neither China nor South Korea wanted to be seen as blocking U.S. efforts to build

a coalition against terrorism. That simple fact overcame resistance in both Seoul and Beijing to Tokyo's overtures to resume more normal relations.

Of course, each country has its own concerns. In Beijing, the chief focus was the Asia Pacific Economic Cooperation Leaders' Meeting that was held in Shanghai last month. China wanted the meeting to go well and tense relations between Tokyo and Beijing would have undermined its success. "Necessity" gave the Chinese leadership the excuse it needed to break the diplomatic logjam with Japan. And it got some valuable items in return when Mr. Koizumi visited the Marco Polo Bridge, a site that is rich in symbolism, and he issued apologies for Japanese wartime behavior that were unlikely in other circumstances.

South Korean concerns were more difficult to assuage, as was made abundantly clear by the protests that greeted the Prime Minister during his one-day visit to Seoul last month. There too Mr. Koizumi visited sites that commemorated Japan's occupation and he made a "heartfelt apology" and expressed remorse for the "pain and damage Korean people suffered during Japan's colonial occupation." Korean President Kim Dae-jung welcomed the apology, but asked the Prime Minister to match his words with deeds. On the sensitive issue of Japan's efforts to assist the U.S. coalition against terrorism, President Kim asked Mr. Koizumi to make sure the activities would remain within the boundaries of the Japanese Peace Constitution. Indeed, by agreeing to meet with the Prime Minister and resume relations, Mr. Kim ensures that his country has some influence in Japan's national debate.

It is difficult to appreciate the anger and hurt that Koreans feel toward Japan. Not only is there pain over the Japanese occupation of Korea, but there is a more recent betrayal as well. President Kim made a courageous offer to then Prime Minister Obuchi Keizo in 1998 when the two men signed a historic agreement to put the past behind them. The controversies over middle school textbooks and the Prime Minister's visit to Yasukuni Shrine have raised basic questions about Japan's commitment to that agreement.

This antagonism is a critical feature of Northeast Asian diplomacy. Korean mistrust of Japan has intensified. Moreover, Koreans are asking the U.S. to get involved. They see the U.S. as encouraging Japanese efforts to assume a larger role in regional security affairs. As a result, they want us to nudge Japan "to do the right thing."

Mr. Koizumi has made the right gestures. His visits and his speeches have been unprecedented. But words will no longer suffice. He must translate them into deeds if there is to be any real progress in relations between the two countries—and progress is essential.

TROUBLES AHEAD?

The Korean Peninsula is in transition. The process will take years, probably decades, but unification of the two Koreas is inevitable. When that occurs, there will be a fundamental rethinking of Northeast Asian security arrangements, and the U.S. presence will be a basic element of the debate. The United States, Japan and South Korea are natural allies, with shared values, a half century of cooperation, and similar social, political and economic systems. Tensions between Tokyo and Seoul threaten to undermine any long-term security agreement for the region. A unified Korea that leans toward China would be a shock to Japan.

Japan has made little progress in attempts to normalize relations with Russia. They continue to be held up by the dispute over Northern Territories, islands seized by Russia after World War II. Tokyo thought it had struck a deal with former President Boris Yeltsin that would have resolved the problem by 2000. Unfortunately, President Vladimir Putin has shown no willingness to follow up on those negotiations and has backed off from any reputed deal. Japan's insistence on putting the Northern Territories dispute at the heart of relations with Russia ensures that there will be no substantive progress in the relationship. It also guarantees that there will be disputes with other nations, such as occurred Russia granted fishing rights around the islands to Korean fishing boats, and Japan protested.

And then there is China. I believe that relations between the two countries will become more contentious in the years ahead. I do not anticipate military tensions, although Japanese defense planners have become more blunt about the potential threat posed by China. Rather, China's rise goes to the heart of Japanese national identity. Japan has prided itself as the leading Asian nation, and has offered itself as a bridge between East and West, a sometimes spokesperson for Asian interests at gatherings such as the G–8. It has led the way in economic development; its model has been copied throughout the region.

China's return to the world stage threatens to eclipse Japan. It dwarfs the country in sheer size and population and its nuclear arsenal distinguishes its military

capabilities. China has a permanent seat on the United Nations Security Council, a position to which Japan aspires. And Japan's own Ministry of Economics, Trade and Industry acknowledged in a white paper issued earlier this year that "the flying geese model" of industrial development, that posited Japan as the leading goose, was no longer applicable. In every sense China is a country of growth and possibilities; Japan's most recent legacy is "the lost decade." (I realize this is an overly rosy picture of China's future, but the general point is valid.)

In brief, Japan seems "stuck" while other countries in Northeast are moving forward in their relationships. Each of the regional governments is developing new political and economic ties, and that dynamic creates momentum of its own. Japan, it seems, is left out. I am concerned about the long-term consequences of this situation and worry about the response it could create in Japan.

CHALLENGES FOR THE U.S.

Japan faces real tests in the future. The magnitude of the challenges will strain the country's decision-makers and its ally and friends. The U.S. has to understand the pressures that the Tokyo government is under—no matter who is in charge—and help deal with them. On the economic front, that means prodding the Japanese to reform, but without the hectoring that has so frequently characterized bilateral dialogue. On the security front, it means accepting the limits imposed by the Japanese Constitution and resisting the impulse to push Tokyo farther than the Japanese people are willing to go. We have performed well so far, but pressures will mount in the future.

It will be critically important to push for a coordinated dialogue with Japan and its neighbors. A U.S.-Japan-China trilateral dialogue can help ease China's concerns about Japan's role in the region and the mission of the U.S.-Japan alliance. Intelligence sharing and coordination of anti-terrorism efforts could provide a foundation for more cooperation in the future.

A similar sort of effort is already underway with South Korea in the Trilateral Coordination and Oversight Group (TICOG) that deals with policy toward North Korea. But the agenda with South Korea must be wider since Japan's relations with Korea should be more intimate than those Tokyo has with China. The depth of Korean anger toward Japan that has been demonstrated in recent months reveals that building better relations between the two countries must be broad based and include as wide a cross-section of the two societies as possible. One positive element is the decision to have the two countries co-host the 2002 soccer World Cup. That will force the two countries to work together and force a degree of interaction that should help take some of the wrinkles out of relationship.

The U.S. has to encourage the two governments to work together to overcome the past. Ultimately, despite our desire to stay out of this dispute, the U.S. is involved: Both countries are allies and we them to have good relations if we are to realize our own policy objectives in the region.

An essential element in this process is track two dialogue. My organization, Pacific Forum CSIS, is a key player in the track two process in East Asia. These meetings have played an important role in facilitating dialogue among various countries of the region and helping move ideas from the formative stage to the official level.

The goal is assuaging fears of Japanese intentions among its neighbors and proving that talk of peace is not cover for more calculated strategies. At the same time, we must assure the Japanese of U.S. support as it goes through a period of wrenching adjustment. As always, patience will be critical. As will perseverance. It promises to be a frustrating process.

Mr. Chairman, members of the committee, thanks you for giving me the opportunity to address these critical questions and for taking the time to hear my thoughts. I would be happy to address any questions you might have on these or any other issues.

Mr. LEACH. Well, thank you, Mr. Glosserman. That was an impressive testimony.

Next up is Mr. Victor Cha, who is a representative of Georgetown University.

Welcome, Mr. Cha.

STATEMENT OF VICTOR CHA, ASSOCIATE PROFESSOR, DEPARTMENT OF GOVERNMENT AND SCHOOL OF FOREIGN SERVICE, GEORGETOWN UNIVERSITY

Mr. CHA. Thank you. Thank you, Mr. Chairman and Members of the Committee, for inviting me here today to testify. I am happy to speak to you on this topic of key trends on the Korean Peninsula.

It seems to me that the most efficient way at least of addressing this question is to ask how much has changed in the way the United States looks at Korea in the aftermath of two watershed events: the terrorist attacks of September 11th and then prior to this, of course, the June 2000 summit, the meeting of the two Koreas.

With regard to the first of these tasks, I have to say it is not really easy. The immediacy of the events have made it very difficult to draw any definitive conclusions about the impact of September 11th on Korea. Nevertheless, I think there are certainly preliminary observations that can be made.

First, the terrorist attacks and their aftermath have really validated the strength of America's alliances in Asia, in my opinion.

Brad has already spoken to Japan. I would characterize South Korean efforts as proactive and positive thus far. Seoul has strongly condemned the attacks and pledged full support for the United States. If I had a dime for every South Korean I have met in a public and private setting who have expressed their sympathies for America as a result of 9/11, I guess I would not be an underpaid academic.

Subsequently, Seoul has offered 450 non-combatant troops for support of the war effort and responded positively to United States requests for liaison officers and medical support.

Having said this, I think there is an internal discussion taking place now in Seoul about whether the South Koreans should provide combat troops if the United States were to request this.

As you are all probably aware, given the nature of what the South Korean military prepares for on the Korean Peninsula, ROK special warfare units have training well suited to mountainous areas.

I have no doubt that if the United States were to request this, it would be a contentious issue in the Korean domestic political climate that it is now in as we enter an election year in South Korea, but, in the end, I think that the South Koreans would respond positively.

The primary reason for this, and it may sound obvious, but I think it is useful to state the obvious on the record sometimes is that alliance commitments such as that between the U.S. and the ROK are treaty commitments that flow both ways and as an alliance like the South Korean alliance remakes itself in the post-Cold War and more out of area common interests like anti-terrorism become a part of what the alliance stands for, then it is incumbent on our South Korean allies to help if they were requested to do so.

With regard to North Korea and the events of 9/11, I think all we can say here is that the events do provide the United States with a potential window on DPRK intentions. The debate continues in the academic, the intelligence and the policy communities about

the extent to which North Korea's recent smile diplomacy over the past 18 months is driven by a true change in North Korean intentions, a transformation toward reform and integration, or whether these are simply mere tactical changes for the purpose of regime survival.

Supporters of the sunshine policy will tell you that they buy the transformation thesis. I, frankly, am more skeptical, but at the same time if North Korea is truly bent on true change, then the events of 9/11 really provide an opportunity for at least them to show their true intent on at least this particular issue.

One positive sign in this vein has been the recent report that the DPRK will sign two U.N. conventions on terrorism but there clearly are more tangible things that they can do in support of this effort.

Let me move on to the events of June 2000. I think while we have had 2 months since 9/11 and that does not offer us as much time to go beyond initial observations. We have had 17 months since the inter-Korean summit of June 2000 and that affords us some perspective on how much has changed and how much has stayed the same. And I have three sets of comments here. The first is on the North Korean threat.

My basic point here is that sort of impassioned debates about whether there is or is not a real North Korean threat after June 2000 to me are not useful debates. Instead, what is more useful is an objective assessment of how much the North Korean threat has changed over time. And I would argue that the nature of the stress has changed along two lines.

The first we are all familiar with and that is the proliferation threat, so I will not go into that in depth here.

But the second, and this is the thing that is most concerning to me, when people ask me what worries me most about hostility on the Korean Peninsula, for me it is not invasion because I think that U.S.–ROK capabilities are more than adequate to credibly deter and defend a potential North Korean invasion.

Instead, the thing that really worries me are limited acts of belligerence on the part of the north for the purpose of coercive bargaining. In the 1990s, what the North Koreans have undertaken is a strategy of limited acts of violence to upset the status quo and these are usually not enough to start a war, but they are certainly enough to rattle everyone's cages. And the purpose of this strategy is to basically renegotiate a new status quo to their advantage. They did this is the West Sea incident, they did this in the JSA incursions. One could argue they did it with the Taepodong shot over Japan.

This is a very risky strategy and there is a high danger of escalation, but it is also a very rational strategy. If you have nothing to lose in the status quo, you are much more likely to leverage it for other purposes.

The upside for the United States here is that this is inherently a more difficult threat to deal with. There is no doubt that you still need a continued baseline of containment to deter the traditional threat that is posed by a North Korean invasion. But the question then becomes containment plus what to deal with these other problems of proliferation and coercive bargaining?

Is it containment plus isolation, what was practiced during the Cold War? Containment plus coercion? Or is it the track we are now on, containment plus engagement?

On unification, how much has the June summit really affected the prospects of unification? My basic point here is that rhetorically there is a lot of talk about how this is imminent. Substantively, there really is not much progress. Indeed, the thing that is most striking to me about the debate on unification in spite of the June summit is the growing ambivalence in South Korea with regard to unification.

This is a function of a number of things I can go into, but basically pragmatism has dominated what was traditionally a normative discourse on unification. And from a U.S. perspective, the upshot from a U.S. perspective on how we should think about the future is that traditionally we have always talked about peace solutions on the peninsula that were zero sum in nature. We largely thought of unification by war, by collapse in which the United States would eventually be off the peninsula. And I guess what this debate in Korea now tells us is that we also need to contemplate other solutions on the peninsula that are non-zero sum in nature, potentially peaceful coexistence, and we have to sort of think about what the U.S. role might be in that particular situation.

My final set of comments are on the U.S.–ROK alliance.

I am directing a project at Georgetown right now on the future of American alliances and to no surprise one of the most successful alliances in the Cold War was the U.S.–ROK alliance. However you define it in terms of interoperability, doctrine, combined training, achievement of objectives, it is one of the most successful. But one thing that I believe the alliance will need to pay much more attention to relative to the past are the alliance management issues, the upkeep issues, if you will.

One thing notable with regard to South Korean domestic political trends is the way that issues with regard to labor, environment and society have resonated with voters. These traditionally have very little play in South Korean domestic politics, they have a lot more now.

And what this really means for the alliance is that issues like SOFA, land use, live fire artillery, these are increasingly things that become domestic political issues around which local politicians can organize. I am not saying that this is the end of domestic support in South Korea for the U.S. On the contrary, for reasons I can elaborate, I think the Koreans will want U.S. security relations long into the future, but I am simply saying that there will be more pressure to deal with these sorts of issues in the alliance today more than in the past and this is a function of democratic consolidation in Korea more than it is the north-south summit.

So in many ways this is the opposite of the problems we encountered in the U.S.-Japan alliance. The complaint here was often that there was too much time placed on alliance upkeep issues and not enough time on tactical clarity. In the U.S.-Korea alliance, you have a lot of time on tactical clarity and not as much time on the upkeep issues and I would suggest that the alliance needs to do more of that.

Mr. Chairman, I will conclude my remarks and I thank you again for the opportunity and I look forward to your questions.

Thank you.

[The prepared statement of Mr. Cha follows:]

PREPARED STATEMENT OF VICTOR CHA, ASSOCIATE PROFESSOR, DEPARTMENT OF GOVERNMENT AND SCHOOL OF FOREIGN SERVICE, GEORGETOWN UNIVERSITY

Mr. Chairman and members of the Subcommittee, thank you for your kind invitation to testify today. I am honored to have the opportunity to speak before such a distinguished group on the topic of key trends on the Korean Peninsula.

It seems to me that the most efficient way of approaching today's topic is to ask the following question: how much has changed in the way the United States should view the Korean peninsula in the aftermath of terrorist attacks of September 11, and prior to this, the watershed June 2000 summit between the two Koreas?

SEPTEMBER 11

The first of these tasks is not easy. The sheer proximity of events makes it difficult to draw any definitive conclusions about the impact of September 11 on Korea. Nevertheless, certain preliminary observations deserve mentioning. First, the terrorist attacks and their aftermath have validated the strength of America's friendships in Asia. As the United States prosecutes the war against Al Qaeda and the Taliban regime in Afghanistan, the allies in Northeast Asia have stood firmly behind American actions. While others on this panel will speak to Japanese efforts, I would characterize the Republic of Korea's (ROK) efforts as proactive and positive thus far. Seoul strongly condemned the terrorist attacks and pledged full support for US actions. It subsequently has offered 450 non-combat troops (120 medical, 170 sea and 150 air logistics personnel and 10 liaison officers) to support war efforts in Afghanistan.

Recent discussions in Seoul center on whether the ROK should dispatch combat troops to the conflict. ROK special warfare units have training well-suited to the mountainous terrain in Afghanistan. If requested by the U.S. (e.g., at the upcoming SCM meetings in mid-November), the issue of combat troops might be a domestically contentious one. Such a request would not be unprecedented—ROK combat forces fought in large numbers with the United States in Vietnam—but the circumstances then differ starkly from today. Whatever trepidations might exist in Seoul on this issue, it is my estimation that the ROK government would respond positively. Alliances are bilateral commitments in which responsibilities *flow both ways*. As combating global terrorism becomes a part of what the US–ROK alliance stands for in the 21st century, it is incumbent on our Korean allies to remain steadfast in this effort.

With regard to North Korea, the events of September 11 provide the U.S. with a potential window on DPRK intentions. A debate rages in the academic, intelligence, and policy community of experts on the extent to which Pyongyang's "smile diplomacy" over the past 18 months represent mere *tactical* changes (i.e., for the purpose of regime survival), or are symptomatic of a fundamental change in *intentions* (i.e., toward peaceful integration with the international community). Optimists and supporters of ROK president Kim's "sunshine policy" believe the latter motivates North Korea albeit in a slow, halting, and opaque fashion. I am still somewhat skeptical. But if the North is bent on true change, then September 11 offers a chance for bold DPRK steps in communicating its intent in at least this regard. Recent reports of the DPRK's intention to sign the UN convention on suppressing terrorist financing (ROK signed October 2001) are encouraging, but this should be followed by tangible actions

AFTER THE JUNE 2000 SUMMIT

While it is still too early to draw definitive conclusions about the impact of 9–11 on US-Korea relations, the task is marginally easier with regard to the June 2000 summit. The seventeen months that have passed since this historic event afford us some perspective on how much has changed; how much has remained constant; and how the US should be thinking about the peninsula.

A Critical Time?

For decades prior to June 2000, one could not be accused of overstating the claim that the military armistice ending the Korean War, the Cold War standoff among the major powers in the region, and the spectacularly estranged relationship between the two Koreas saw no change since 1953. Then in a space of five years, a

chain of unprecedented events took place. DPRK leader Kim Il-sung died in 1994, leaving a bankrupt economy to an untested quantity in his son, Kim Jong-il. Famine and a burgeoning ballistic missile capability raised concerns that the forty-year old stalemate on the peninsula could be broken by either a DPRK implosion or explosion. The US–DPRK standoff over the North's nuclear program nearly led to war in June 1994, only to be averted by the Agreed Framework and a new path of US–DPRK engagement. During this same period, the ROK peaked in its postwar development in 1997 with OECD membership and plummeted only a year later to becoming an IMF bailout recipient. Kim Dae-jung embarked on a new "sunshine" or engagement policy with the North. The culmination of this strategy was a historic summit between the two leaders in Pyongyang in June 2000. Talk of peaceful unification filled the air in Seoul, as well as murmurs about the anachronistic US–ROK alliance. Polls showed 90 percent of South Koreans having a positive image of North Korea after the summit. An astounding 53 percent of this population dismissed the possibility of another DPRK invasion.[1]

How should the United States think about these changes? Are we closer to unification and an end to the cold war stalemate? Are many of the conventional truisms we have accepted about the Korean peninsula for so many years suddenly on the verge of being overturned?

I argue that while the June 2000 summit sparked certain changes on the peninsula, a great deal has remained the same. Moreover, where significant change has taken place on the peninsula, the nature of it has often been misunderstood or overstated in the public debate. I make this argument by debunking three "myths" that have emerged in recent re-assessments of conventional security and political thinking. These relate to the nature of the North Korean threat; the unification issue; and the future of the US–ROK alliance.

Reassessing the North Korean "threat"

The June summit gave rise to a debate over how the United States, the ROK, and Japan should perceive DPRK military capabilities. Pessimists argued that little had changed as a result of the June summit. The North was improving their capabilities behind the veil of engagement, and lulling the allies into a false sense of security. Optimists contended that the North's forward-deployments near the DMZ were not offensively-intended, but were part of a defense and deterrence doctrine (e.g. using artillery to hold Seoul hostage against a US–ROK attack rather than for the purpose of southern invasion).

There are still salient DPRK threats and chances for renewed hostility, but the nature of the problem has changed along two dimensions: proliferation and bargaining leverage. Regarding the former, the DPRK ballistic missile program since the early 1980s has produced a range of missile systems, either deployed or tested, demonstrating progress beyond most expectations. Despite dire material constraints, the North accomplished this largely through reverse-engineering of SCUD–B missile technology acquired from the Soviet Union. The August 1998 test flight of the Taepodong-1 over Japan demonstrated an unexpected leap in IRBM technology (albeit a failed 3-stage payload launch). Although Pyongyang currently adheres to a self-imposed testing moratorium (until 2003), its history of behavior in this area is suspect. In defiance of Missile Technology Control Regime (MTCR) norms and often described as the agent that could single-handedly undermine the entire regime, North Korea has been the most active producer and provider of SCUD missiles and missile technology to Iran, Syria and Pakistan; and concerns abound regarding future proliferation of longer-range systems. Mated with the missile program have been dedicated DPRK efforts at acquiring nuclear weapons capabilities. Deriving from atomic energy agreements with the Soviet Union in the 1960s, Pyongyang's nuclear industry was capable of supporting a complete nuclear fuel cycle by the 1980s. Subsequent reactors (an operational five megawatt reactor and construction of 50 and 200 MW reactors) presaged an annual reprocessed plutonium production capacity that could sustain in excess of 10 nuclear weapons. While these activities remain frozen and are subject to dismantlement as a result of the 1994 US–DPRK Agreed Framework, suspicions remain regarding the North's plutonium reprocessing history, alleged covert activities outside Yongbyon, and possible crude nuclear devices.

Coercive Bargaining

The second subtle but significant change with regard to peninsular security involves a new logic of deterrence. The most worrying contingency for the United

[1] See *Choson Ilbo-Korea Gallup and Hankook Ilbo-Media Research* polling results reported in *Korea Herald*, 19 June 2000 ("Summit talks greatly improve image of Kim Jong-il among South Koreans").

States is no longer all-out invasion, but rather limited acts of belligerence by the North for the purpose of coercive bargaining. By virtually every calculation of the military balance on the peninsula today, US–ROK defense capabilities overwhelm those of the DPRK, rendering nil the probability of a successful second DPRK offensive. Moreover, standing US war plans promise that any DPRK attempt to replay June 1950 would be met with a decisive counter-offensive aimed at extinguishing the regime. Hence, US–ROK deterrence and containment clearly deals with the contingency of invasion; what is less clear is how effective the strategy is in dealing with *limited uses of force* by the North to coerce better bargaining positions. This has been the most frequent and consistently threatening behavior by the DPRK since the end of the cold war. Pyongyang's *modus operandi* is to undertake acts of belligerence that violate the peace and disrupt the status quo, usually highlighting some grievance the DPRK holds. These "pinprick" acts are usually severe enough to gain everyone's attention, but at the same time do not warrant all-out retaliation. Thus, Washington and Seoul are manipulated into the awkward position of wanting to punish the North's misbehavior, but constrained by fears of provoking an unnecessary and costly larger conflict. As a result, they usually issue a token denouncement of the DPRK transgression, but still come to the negotiating table prepared to make concessions that will reduce tensions.

From Pyongyang's perspective, the objective of this strategy is not to win militarily but to initiate a *coercive bargaining* process that eventuates in a negotiation outcome better than the status quo ex ante. This is a dangerous and de-stabilizing strategy, but it is the sort of high stakes game that Pyongyang adeptly plays. Two observations about such a strategy require emphasizing. First, basic containment postures designed to deter all-out invasion may not be as effective in discouraging the limited use of force. Second and most important, the resort to force under such a strategy is *rational*. Even if objective factors weigh wholly against military success, the incentive to undertake a belligerent act is still rational because of the anticipated benefits of renegotiating a new status quo more in line with one's interests. The costs of the current situation outweigh the costs of change.

In this vein, the armed naval altercation on the west coast of the peninsula in June 1999 offered an ominous precedent. Several North Korean patrol boats transgressed South Korean territorial waters, prompting the ROK Navy to ram the trespassers and an exchange of fire that left 20–30 North Koreans dead. This constituted one of the largest losses of life in North-South altercations since the 1953 armistice, and was a clear demonstration ROK superior naval combat capabilities and training. What grabbed the headlines was the military clash and related casualties. But few really stopped to ask why the North took such actions, or else assumed that the regime either underestimated the ROK's naval capabilities and resolve, or else acted irrationally. But the most likely possibility was that this North Korean provocation was designed to extort concessions from a fearful ROK and its foreign patrons regarding, in this instance, the validity of the Northern Limitation Line (NLL) maritime boundary between South and North Korea.[2] In other such incidents the North might lob several artillery shells or one chemically-armed short-range missile fired into the South (and if possible non-American in target). The DPRK cannot win a confrontation, but this act could still be rational in the sense that it would cause enough chaos to raise incentives on the peninsula to renegotiate a new status quo possibly more favorable to DPRK interests. Again, such an act would not be based on a rationale about winning but one of avoiding further loss.

The upshot of this for American security interests is that the "threat" posed by North Korea is inherently a more complex and problematic one than during the cold war. While deterrence of a traditional ground invasion is still essential, the more salient question is what in addition to baseline containment is needed to deal with these new problems of proliferation and coercive bargaining. Indeed, this is where the policy debate on North Korea remains undecided. While the current policy emphasizes engagement initiatives layered on top of basic containment strategies to deal with the proliferation threat, others argue that containment-plus-isolation which worked during the cold war, should work again, or that coercion (i.e., containment-plus-coercion) is necessary to deal with the proliferation threat.

Whatever one's preference, the point to be noted is that the June 2000 summit and its aftermath have not affected the threat assessment. First, the summit had no direct impact on the proliferation dimension of North Korea. Second, there is no

[2] The NLL was unilaterally declared by the United Nations Command after the 1950–53 Korean War, and for the US and ROK, represents the "de facto" maritime border. The DPRK does not recognize the line and claims as its own the resource and fish-rich disputed waters less than 12 miles away from its western coast (the disputed seas are also located less than 12 miles away from South Korean-owned islands in the West Sea).

denying the summit's positive dynamics; nevertheless, the heightened confidence among South Koreans wholly dismissing the likelihood of conflict on the peninsula appears to outpace the events themselves. According to the logic laid out above, the true test of whether this confidence is justified is not a function of warmly-worded toasts, embraces, or a return visit by Kim Jong-il but the extent to which material improvements in the North's situation give it more to lose in coercive bargaining attempts, thereby rendering the policy unattractive.

The US–ROK Alliance

Across a range of criteria that determine the functional success of a military alliance, the US–ROK alliance has done well. The alliance enabled the stationing of 37000 US troops directly at the point of conflict on the peninsula which provided the South with an unequivocal symbol of the US defense commitment and deterred the North with its tripwire presence. The two militaries represent the classic example of an alliance operating under a joint, unitary command (the Combined Forces Command or CFC) with a common doctrine, as well as with a clear division of combat roles practiced through frequent and extensive joint training. Overall host country support for the alliance has been and continues to be strong. Arguably the US and ROK have evolved to fit the ideal definition of military allies, far more workable and efficient than the US-Australia or US-Saudi Arabia alliances and paralleled only by NATO and the US-Japan alliances. However, the unexpected congeniality of the North-South summit raised all sorts of speculation about the future of the US–ROK alliance. If the likelihood of conflict on the peninsula has been eradicated by this new era of Korean peace (as some suggest), then what is the purpose of the alliance? Has South Korean tolerance for the burdensome structures of the alliance and its bases and training ranges waned in direct relation to the euphoria of the summit? Has the summit created a division of interests on the peninsula with the South Koreans "decoupling" their peninsular peace from other issues of concern to the US and Japan? In short, is the alliance increasingly an anachronism of the cold war?

These are hard questions that the alliance must answer with regard to its future, but the emphasis here is on "future." Excited observers draw a immediate causal link between summit atmospherics and the obsolescence of the alliance. It appeals to Korean romanticism to think that the US alliance becomes less necessary because of this bold move by the Koreas, but the fact of the matter is that the alliance is here to stay as long as the threat remains and perhaps even beyond. The majority of South Korean security thinkers, including Kim Dae-jung himself, have gone on record calling for a security relationship with the US even after unification. Such strategic imperatives do not change easily overnight. Moreover, toasts, warm embraces, and a return visit by Kim Jong-il do not stop ballistic missiles, nuclear posturing, nor heightened tension in the DMZ. To believe that the summit's platitudes enable Korea to decouple itself from these larger and substantive security concerns of Washington and Tokyo would be a grave mistake. In short, while the rhetoric regarding the dispensability of the alliance and complaints about intrusive aspects of US bases and training might heat up every time there are kind words between the North and South, the clear-headed among South Korean policy makers will not trade away the Eighth Army for the positive atmospherics with Pyongyang.

In this regard, there is one phenomenon evident since the summit that Washington and Seoul must guard against. Because Kim Dae Jung has staked his presidency on the success of the sunshine policy, this has created tremendous domestic-political pressures to show constant progress in the policy. To avoid unnecessarily upsetting the North, Seoul has occasionally asked for postponement and/or scaling down of joint US–ROK military exercises. This may have been an understandable request regarding the Korean War 50th anniversary celebrations scheduled shortly after the June 2000 summit, but it is *not* an acceptable request with regard to military exercises meant to maintain battle readiness. Not only is this dangerous for USFK, but it actually undermines the South Korean sunshine policy. Engagement is only credible to the target state when it is undergirded by robust defense capabilities. Once capabilities deteriorate, engagement becomes appeasement.

Second, the argument that the end of the Soviet threat and more immediately the Korean detente have highlighted troubling disparities in US and ROK security interests on the peninsula is not a particularly novel revelation. American and South Korean interests are indeed different, but this has *always* been the case. Historically, ROK expectations regarding the credibility of its American ally's commitments have always been local in terms of peninsular security and the zero-sum competition with the North. On the other hand, the US has always seen the Korea issue refracted through the prism of its larger regional or global strategies. These differences emerged occasionally but they were managed well because the American

cold war strategy linked events in the periphery with US-Soviet competition at the core, thereby causing the regional and local views to converge.

Perhaps the biggest change for the alliance is the increased attention that must be paid, relative to the past, on the alliance "upkeep" issues. To many observers, this became apparent with the North-South summit as detente corresponded with increasing South Korean antipathy toward the more intrusive elements of the American military presence. However, the roots of this dynamic lay not in North Korea's "smile diplomacy," but in South Korea's democracy. In particular, issues with regard to labor and the environment increasingly resonate with voters. Such issues traditionally had little traction in Korean politics, but with the end of the cold war, democratic consolidation, and the emergence of a younger generation of politically active, the political spectrum has broadened sufficiently to encompass civil-military issues.

What this means for the alliance is that South Korean grievances vis-a-vis the status-of-forces agreement (SOFA); basing and land-use, live-fire exercises; host nation support; and the combined forces command (CFC) structures increasingly will become domestic-political issues around which local politicians can gain support. A full discussion of these issues is beyond the scope of this testimony, but the US generally enjoys more favorable terms on these elements of the alliance compared with its other alliances like NATO and the US-Japan relationship. For example, the CFC has been a delicate sovereignty issue for the two governments. Operational control traditionally belonged to the US until December 1995 when peacetime control (as well as chief of the military armistice commission) was transferred to South Korea. There are increasing calls in the post-cold war by South Koreans for wartime operational control; however this faces two obstacles: (1) the lack of adequate intelligence capabilities (which Seoul also desires the US to provide); and (2) US reluctance to concede wartime operational control in any theater it is in. Most likely, an alternative arrangement would need consideration similar to a NATO-type combined control system in wartime, or a US-Japan system of independent control but with specified guidelines about roles and expectations for cooperation. With regard to basing, the US currently occupies 78.6 million pyong (1 pyong = 3.3 square meters) for 36,272 troops. While this amounts to a small fraction of total South Korean land (.23 percent) , it accounts for 40 percent of the land in metropolitan Seoul. There are increasing South Korean calls for changes in the percentage, location, and terms of land used for the US base presence. Relative to Japan or the Philippines, the ROK provides more exclusive land use rights to the US without compensation to the private sector or does not hold the US accountable for damages (56% of the total land usage is granted for exclusive use by the US).

Major changes to the alliance along any of these dimensions would have to wait until a formal peace settlement on the peninsula. But in the interim, there are increasing pressures emanating from within the alliance to manage these issues in a noncombustible manner that minimizes the negative civil-military externalities of the US base presence. It is important to note that complaints regarding these issues do not signal the end of the alliance. First, these "upkeep" issues would have surfaced on the US–ROK agenda regardless of the recent summit because as noted above, they are a function of larger democratic consolidation trends in South Korea and the rise of a politically active civil society. Second, contrary to popular perception, the object of these protests is not necessarily the end of the alliance or the early withdrawal of US forces, but compensation or means of redressing grievances. Finally, the alliance's focus on these upkeep issues is actually a good omen for its resiliency. In many ways, this represents a natural evolution in the alliance as the South Korean junior partner seeks a more equitable position in the relationship. This was the path of the US-Japan alliance as adjustments were made in the face of problems in Okinawa which has made the alliance overall stronger. The US–ROK alliance is making this transition as well, complementing the alliance's tactical clarity with new attention to the upkeep and equity issues.

Unification

Finally, what about unification? The sight of Kim Jong-il and Kim Dae-jung embracing in Pyongyang was a cathartic event for Koreans filling a void in the Korean psyche and national identity. Accompanying the display of raw emotion and joy at this event was Korean claims that reconciliation for their long-divided country was finally imminent. How close are we to Korea's holy grail?

In the post-Cold war era, the spectrum of discussion about unification has ranged from "hard landing" scenarios in which the South absorbs an imploded DPRK (popular in the early 1990s) to the "soft landing" scenario of a controlled process of phased integration. But two tenets have been almost religiously accepted by all. First, unification must come through the independent efforts of Koreans, without in-

terference or obstruction from external powers. Implicit in this view is that the major powers are fundamentally opposed to unification and seek to keep Korea down. Second, unification is inevitable with the division of the country in the 20th century an aberration of history for this homogenous nation.

The first of these tenets, which has been an underlying principle of unification agreed upon by the two Koreas dating back to the 1972 joint communique and restated in every subsequent meeting including the June summit, requires analysis. The notion of unification through independence (*chajusong*) is in principle unassailable, but in practice highly unlikely. This is less commentary on the innate ability of Koreans, than it is Korea's curse of geography. The peninsula's location in Northeast Asia, in combination with the region's power asymmetries (as a small power among larger ones), has made Korea geostrategically critical to major power interests. Any who question this claim need only look at the past century where all of the major powers (the US, Japan, China, and Russia) have fought at least one major war over control of the peninsula. Thus, as long as states vie for power in the region, Korea will suffer the fate of the "shrimp crushed between whales." If the peninsula were located by the North Pole, unification through independent means might be possible, but its pivotal position makes major power interests inherent in any changes on the peninsula.

The complementary argument to *chajusong* is that all the major powers oppose unification. An opinion often espoused by Koreans, this view argues that the intentions of the major powers are to prevent a reunited Korea from upsetting the regional power balance, and despite rhetoric to the contrary, their grand strategies including the United States are dedicated implicitly to opposing or preventing unification. Koreans are indoctrinated in this view to such an extent that it has become an unquestioned fact, and any evidence to the contrary is dismissed or ignored. This is a terribly overstated myth. The major powers, in particular the United States and Japan, do *not* oppose unification per se. They simply prefer the known status quo to an unknown and potentially destabilizing future. The primary objective of each major power on the peninsula with regard to its own national security is to maintain stability. In spite of the militarization of the DMZ and the absence of a peace settlement, a strange form of stability has emerged since 1953 based on deterrence and the military stalemate. A suboptimal outcome in the minds of all concerned with the peninsula, this realized outcome is still preferable to a change in the status quo where both the process and the outcome are wholly unknown.

In spite of these considerations, if the two Koreas were to begin a process of unification tomorrow, it would be wholly within US (and other major power) interests to *support* this process without prevarication. This is because any actions to the contrary would undermine the other major objective with regard to unification: avoiding a united Korea aligned against it. Actively impeding or opposing a process once it got started would virtually ensure a united Korean state hostile to one's interests. The standard truism about major power opposition to unification therefore is too crude. While the impetus for changing the status quo is not likely to come from the major powers, Koreans can be assured that once they started the process themselves, the external powers would be obligated to support it. This would not be out of affinity, goodwill or loyalty (although these factors may be present), but because it is in their respective interests to do so.

The NIMT ("not in my time") consensus

The second tenet of unification—that it is inevitable because division is aberrant—has a ritualistic quality about it that obscures the real ambivalence with which many Koreans themselves regard unification. Unification has always been the holy grail, but the enthusiasm for it has fluctuated widely over the past decade. At the end of the cold war, the common view was that unification (whether through a hard or soft landing) was only a matter of time given the collapse of the Soviet Union and the North's economic difficulties. The Kim Young Sam administration in the early 1990s claimed absorption of their northern brethren was just around the corner. However, both the confidence and enthusiasm that typified South Korean attitudes waned dramatically thereafter. First, the North Korean regime defied all the experts just by surviving, thereby ruling out the unification by default scenario. Second, a better understanding of the German case deflated Korean expectations in two ways. The comparative indicators did not bode well for Korea since the economic gap between East and West Germany was relatively smaller than that between the two Koreas, and the capacity of the West German economy to absorb its counterpart also surpassed South Korea's. Moreover, what South Koreans saw as ill-advised mistakes by the Germans on integration policy (e.g. currency union) which they would not duplicate, were in actuality unavoidable given the domestic-political pressures of unification. For example, on currency union, contrary to South Korean beliefs, the

German government was not ignorant of the inflationary pressures of a 1:1 conversion rate, but this action was unavoidable given the need to appeal to and accommodate a newly enfranchised East German electorate—a problem that a democratic united Korean government would also face. Finally, while earlier assessments of unification costs (by government-supported research institutes in the South) saw these as manageable, more objective studies subsequently put the costs as high as $1 trillion which far exceeded the German example. In good part, these new estimates corrected for the biases and unforeseen consequences in earlier studies. The liquidity crisis that hit South Korea in 1997–98 brought into stark and sobering relief the high costs of such an exercise and essentially deflated any remaining buoyant expectations about unification.

The new ambivalence toward unification is manifest in several ways. Popular attitudes have changed markedly. Pragmatic considerations have intruded on what was formerly a normative discourse on unification. In part this is linked to generational change as fewer Koreans of the "war generation" experienced a non-divided country. It is also linked to the North's famine-like conditions over the past few years which only further raised the anticipated costs of union. The result is that unification is no longer seen in the same holy terms. The discourse quickly turns to the added tax burden faced by Koreans and the vast pressures the northerners will place on an already weak social safety net. Hence while it is still part of one's Korean identity to yearn for unification in normative terms, a pragmatic "NIMT" (not in my time) consensus has emerged. As one observer noted, "[Unification] is a goal recited with an understood wink. While virtually everyone in South Korea vows allegiance to it, few people actually want it to happen very soon, if at all."[3] Moreover, to explicitly enunciate such doubts and ambivalence, while understood by all, would be blasphemous.

This NIMT consensus is also apparent in current South Korean government policy. A number of traits distinguish Seoul's "sunshine" or engagement policy with North Korea, including the persistence and consistency of the policy in spite of DPRK provocations, and the open-ended nature of engagement (encouraging all countries to engage with North Korea). But what is most important in the context of this discussion is that it is the first northern policy in South Korean history that does not explicitly bespeak of unification as a goal, effectively taking it off the political agenda (in the South). Such a unification-agnostic policy is both facilitated by and symptomatic of this larger shift in attitudes.

These changing attitudes affect how the US should be thinking about future peace solutions on the Korean peninsula. This is generally thought of along two dimensions: 1) a continuation of the status quo; or 2) victory of one side over the other. However, the shift in Korean attitudes on unification means that we need to think about peace solutions on the peninsula that are increasingly non-zero sum in nature. Advancing from an armistice to a peace treaty is certainly requisite, but moving beyond that, possible peace solutions could include: 1) Korean coexistence and US withdrawal or 2) Korean coexistence and the US as a peacekeeping entity on the peninsula. There are other possibilities but the point is that as rethinking on unification occurs, options for the US military presence move beyond the two dimensions we are generally accustomed to thinking about.

Perspective, Not Pessimism

With all the change that appears to be sweeping the Korean peninsula since the June 2000 North-South summit, congressional testimony that stresses constancy may appear to rain on Korea's parade. But such testimony constitutes an appeal for perspective. The summit and its aftermath open the first narrow window on North Korean intentions. This is extremely important but it is also inconclusive. While we may indeed sit at the threshold of long-awaited change on the Korean peninsula and a real chance for lasting peace, clearly the hard work is yet to be done. Credible communication of a change in intentions must be done not through rhetoric, but through changes in military capabilities including the conventional balance of forces; the DPRK's missile and WMD programs; and beyond this, the status of US forces on the peninsula. Only with these changes will the skeptics be convinced of that which we all wish to be true—a peace solution on the Korean peninsula, which would be the most important event in East Asia since World War II.

Mr. LEACH. Thank you very much for that very interesting testimony.

Ms. Wallander?

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[3] *Washington Post*, 18 June 2000 (Doug Struck, "In the South, One Korea is Distant Goal").

STATEMENT OF CELESTE A. WALLANDER, DIRECTOR AND SENIOR FELLOW, RUSSIA AND EURASIA PROGRAM, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Ms. WALLANDER. Thank you, Mr. Chairman. I am grateful for the opportunity to contribute to the work of the Committee as the United States develops a relationship with Russia in cooperation against international terrorism. I think it is important, and this Committee clearly recognizes, that President Putin's decision to join the west in that task does not negate the reality of Russia's Asian presence and we need to understand the bases of Russia's Asia policy in order to cope effectively with our partners in challenges in the region as well as the U.S-Russia relationship.

I will not go through my analysis of the bases of Russian foreign policy extensively here, I have submitted it in my written testimony, but I will point out two aspects that are very important. One is that the most important threat to Russian national security identified in an array of Russian documents is the need for domestic economic reform, and that need for domestic economic reform is tied in important ways to Russia's involvement and interaction in the international economy. It draws Russia into particular relationships with particular sets of countries, depending on the economic sectors that are the basis for trade policy, investment policy and so on. It is important to understand that for the post part in Asia that means arms sales and it means energy development. I talked a little bit about the details of that with relation to different countries and we could talk more about that in detail.

The other important security problem or threat that is important to understand, that Russia has emphasized for some time, is terrorism and stability in Eurasia, I think from the Russian point of view the tragic events of 9/11 are sharp and important in the Russian response because this has been a continuing theme for several years. It in fact is no surprise that President Putin was the first leader in the international community to call President Bush after those events because this is something that has been much in the Russian security consciousness for some time.

Now, I think that what has happened in September and after is important because it changes the basis for three important objectives in Russian foreign policy in general, but specifically in Asia. The bases for those Russian foreign policy objectives are establishing itself as a power in world politics, securing the territorial integrity and stability of the Eurasian land mass, and, third, participating in international trade and finance.

In terms of Russia's relations with China, an important element of Russia's relationship and its development of ties with China over the last few years has been China's role in making Russia important to the United States. 9/11 changes that. 9/11 makes Russia important to the United States on its own terms and thereby 9/11 diminishes the importance of China in this aspect of Russian objectives and also strategies.

Russia and the United States are in close consultation in intelligence sharing and the volume, quality and importance of the information has been substantial. This in and of itself brings the U.S. and Russia closer together.

Furthermore, while Russia does not have a veto over the choices of the sovereign countries in Central Asia, in practical terms the willingness of Tajikistan and Kazakhstan to allow the U.S. to base forces on their territory needed active Russian support, if not agreement.

Furthermore, Putin has since gone even further on the military front and stated this week that Russia is willing to engage actively in search and rescue missions to aid U.S. forces if necessary. These are not simply statements of support, which are, of course, welcome from whatever direction they come from in the international community these days for the United States, but they materially affect the ability of the United States to succeed in the campaign against the Taliban and al-Qaeda in Central Asia.

Given concerns about the stability of Pakistan and that country's ties to the Taliban, the Central Asian countries become important not only in the short term, as we have seen in the last few weeks in the successes and support of the Northern Alliance against the Taliban, but also as we think about our long-term presence in the region and the stability and cooperation we will see in the region from countries that have so far joined us and given us that kind of support. As the campaign against terrorism moves on from the Afghan theater, Russia will likely continue to play an important supporting role, even if the United States does not entirely accept and should not entirely accept Russia's view of the nature of terrorist phenomenon in the Caucasus and elsewhere in Eurasia.

In addition, if there is a serious post-conflict reconstruction Afghanistan, Russia's location and support in Central Asia will remain important, as will its status, of course, as a permanent member of the U.N. Security Council.

So in short, Russia all of a sudden does not need China to be important to the United States and this is significant, not just in the relationship, but in what was driving the Russian relationship with China, moving toward and including the signing of the friendship treaty this year in July.

Furthermore, I think two other implications of Russia's importance create problems in the China-Russia relationship. First, the U.S. and Russia are moving rapidly toward a workable compromise on the ABM treaty and missile defense testing and research. Even if there is not at this week's summit an agreement on compromising on the ABM treaty, I think it is likely that in the coming months we will see some kind of compromise on the treaty that will allow Russia to state that the treaty has been preserved, but that allows U.S. testing, research and limited development.

Clearly, one aspect of Russian-Chinese relations over the last few years has been the commonality of views between those two countries and the importance of the ABM treaty and the need to oppose the United States in seeking to either exit it or change it.

If Russia does, as I believe it will, compromise with the United States on this treaty, it will certainly create problems in the relationship but, more to the point, it may create a sense in China that Russia has left it abandoned and this could have broader effects in the relationship.

Furthermore, Russia no longer needs the ABM treaty to claim a seat the security table with the United States because of all the as-

pects of the partnership against terrorism that I have already described. I think that these mutually reinforcing elements in Russia's relationship with the United States will make this a durable one, not merely one related to the campaign against terrorism, but a longer-term basis for U.S-Russia relations.

The second implication is that Russia has significantly down played the argument that the war in Chechnya is purely an internal matter. The Putin strategy has been to argue that Chechnya is an international issue because of the link of fighting there to international terrorism.

Now, this undermines an important aspect of China-Russia diplomacy over the last couple of years, too, which is to reinforce one another's positions that Chechnya on the Russian side and Taiwan on the China side are purely internal matters. This is not say that Russia is all of a sudden going to start arguing that Taiwan is an international matter, but it does mean that the Putin government is not going to be expending much diplomatic effort in reinforcing the argument about the importance of the United States understanding the boundaries of what is internal and what is international.

On the second front, that is, Russia's concern for stability in the Eurasian land mass, China becomes less important for managing Central Asian security and in particular terrorism in the region and Russia's policy.

Why bother investing in the Shanghai Cooperation Organization when the important effect of alignment of countries to deal with terrorism in the region is the U.S., Russia, Uzbekistan, Tajikistan and Kazakhstan?

What was driving Russia to develop the Shanghai Cooperation Organization with China was to manage China's growing role in Central Asia. If the United States is in Central Asia and Russia and the United States have a common view of what needs to be done in the region, the importance of engaging with China on this issue through that institution or even bilaterally is eroded.

The economic issues that I referred to are important, and the third objective in Russian policy, also are affected by 9/11. We have seen some of that with the discussion at the U.S.-Russian summit on U.S. assistance in making Russia ready for membership in the World Trade Organization: initiatives to develop business contacts, and these kinds of developments that have been strongly supported by the Bush Administration. But I think it is also at the same time important to understand that the Russian-Chinese economic relationship is likely to be the exception to the rules I have just laid out about a change in the relationship, and that is because that economic relationship is based on two sectors of the Russian economy that are extremely important to the Putin leadership: arms sales and energy development.

Arms sales are important because arms sales to China and other countries, including India, basically are keeping the Russian defense industries alive right now. As the Russian government is not doing much procurement of its own in order to keep its own defense industries alive and move on to reform in the industry and rebuilding Russian military power, those relationships take on an importance that go beyond the actual aggregate amount of money

spent, but are important for reasons related to industrial policy, keeping that sector of the economy alive.

Furthermore, President Putin said this week that the problems of defense reform in Russia are now moving into a higher priority in his government and that they involve, as he said, both the progress of reform and armed forces provision with up to date equipment and hardware. I think that means that there is going to be even more of an emphasis on restructuring the enterprises within that industry that are successful, and some of the most important enterprises that are successful in the industry are aircraft, and those are important in the relationship with China.

Similarly, Russia remains very interested in China as an energy export market and in potential Chinese investment in its Far Eastern energy resources. In fact, if there is a global demand fall due to recession, and in particular if countries such as Japan face problems in their economic performance and their demand for energy imports falls, China could become very important if its own growth and growing demands are not too badly depressed by a global slowdown.

So it is important for us to understand this important constant element in the Russian-Chinese relationship within this array of what I think is actually a far more substantial and far reaching change that we are going to see so that we are not surprised by it and so that we understand that it is not inconsistent with Putin's overall objectives and decision to support counter-terrorism.

Now, just a couple of—it has been a long afternoon—a couple more comments just on the Japan and Korea fronts very briefly.

One is that I see the opportunity for an improvement in Russian and Japanese relations from the Russian perspective, and I understand that the other part of the equation is potentially more complicated. The Kuriles Islands territory issue remains an enormous obstacle, but many of the interests which are pushing Putin toward cooperation with Europe which have been quite successful are also in play in thinking about Russia's relations with Japan. That has to do with attracting investment to develop consumer industries which are virtually non-existent in the Far East, but ultimately are going to be extremely important if the Russian federation is not to break apart.

Also the development of energy resources in the Far East. China is a promising market, but the Russians know that they do not want to be dependent on single markets in any region and, in particular, in the far east. Japanese involvement in the development of the Sakhalin oil and natural gas deposits has been very significant in Russian calculations about focusing on getting better corporate governance laws through the Duma and increasing transparency in the business climate, because they understand that the kinds of resources necessary to develop those energy resources in the Far East are going to come from a mix of domestic but also significant international investment.

In addition, Russia and Japanese relations are promising in Central Asia. One of the areas where Japan has been active in a way that is supportive of Russian interests has been in its involvement in seeking to support social and economic development in the region. It strikes me that the terms we heard about in Japan's sup-

port for reconstruction of Afghanistan create the opportunity for a much more substantial partnership. Since the Russians do not have a lot to bring to the table by way of social resources or economic resources and are likely to play more of a peacekeeping role, if anything, it seems to me there is a complementarily of interests that U.S. policy in the region can reinforce.

Finally, on Korea, much of what I would say about the economic relationship between Russia and Japan also holds for South Korea, so I will not repeat it: the importance of the energy sector, but also possible cooperation in military sales, since there have been substantial programs in military-to-military cooperation and contact between Russia and South Korea.

The interesting conundrum for me, and I do not have an answer, so I am going to lay it out as a question for us, is the Russian relationship with North Korea. It strikes me that the Russian assets in dealing with North Korea have become less important after 9/11, in particular, the use of North Korea and a close relationship with North Korea to argue against American need for missile defense has been undermined by the general improvement in U.S-Russia relations and the movement to some sort of compromise on the ABM treaty.

If North Korea is less important for that diplomatic leverage in proving that Russia can play a role in that, just what does a close relationship with North Korea provide Russia? I think what we are going to see on a broad array, even outside of Asia, is the Russian leadership looking at its Cold War leftovers. We have seen that, for example, in Putin's decision to close the signals base, the intelligence gathering base in Cuba. North Korea may well be next as something that you need to jettison from the Cold War to move forward in a substantial relationship with the United States from Putin's point of view. So we need to think about the difference between Russian policy on North Korea and South Korea as well.

Thank you.

[The prepared statement of Ms. Wallander follows:]

PREPARED STATEMENT OF CELESTE A. WALLANDER, DIRECTOR AND SENIOR FELLOW, RUSSIA AND EURASIA PROGRAM, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Mr. Chairman, I am grateful for the opportunity to contribute to the work of your committee as the United States faces the opportunity of cooperation with Russia to defend against international terrorism. President Putin's decision to join the West in this task does not negate the reality of Russia's Asian presence, and we need to understand the bases of Russia's Asia policy in order to cope effectively with our partners and challenges in the region.

BASES OF RUSSIAN FOREIGN POLICY UNDER PUTIN

Putin came to office with three broad objectives: to strengthen and control the Russian state and politics, to create economic growth and restructure the Russian economy, and to establish Russia as a power and player in international affairs. The three are obviously interlinked: state power is necessary to pass and implement economic reforms, economic growth (arising at first from higher oil prices and the effects of default and devaluation in August 1998) creates budget resources that make political success possible. And to play a role in international politics more worthy of Russia's vision of itself than as its position in the 1990s as an irresponsible and unreliable storehouse of weapons of mass destruction (WMD), Russia had to get its domestic political economic house in order first.

Therefore, it is important to understand the domestic political and economic coalition behind President Putin because it is linked closely to Putin's foreign policy, par-

ticularly in ways that distinguish it from Yeltsin's foreign policies. First, Putin is dealing with a different set of economic incentives and opportunities. The economy grew by 8.3% in 2000, and projections are 5.5% for 2001. In the initial period, growth was due almost entirely to the effects of devaluation of the ruble (and thus the effects of import substitution as Russian goods became more competitive) and increase in international oil and gas prices.

Oil and gas remain vital to Russian economic growth: it is estimated that every $1 change in the price of a barrel of crude oil is worth $1.2 billion to the Russian economy (with a projected nominal GDP of $300 billion for 2001), with about one-third of the amount going to the government budget in taxes and duties. However, while import substitution effects were important in the early period of growth after 1999, there are signs that the Russian economy has moved past this short-term boost and may now show growth because of more stable factors. Industrial production last year was 11.9%, and in 2001 a growing percentage (over 61%) of Russian enterprises are reported to be profitable. Real wages and real incomes continue to grow in 2001 (at 16.7% and 5.4% respectively), which contributes to continued strong domestic consumption.

Russia has a very long way to go to sustainable growth, most significantly the need to invest some $2.5 trillion over the next 20–25 years to replace aging Soviet infrastructure and make up for the absence of investment in the 1990s, but some of the elements of sustained growth are in place and having an effect on Russian economic performance. Recently, there are signs that Russian businesses themselves are beginning to re-invest in the Russian economy, a crucial test for long-term growth.

Consequently, it is easy to see why foreign markets for Russia's oil and natural gas are so important. Without healthy and growing energy sales on international markets, the government has no breathing space to maintain fiscal responsibility (the Russian government budget surplus was 2.5% of GDP in 2000, and is projected to be 3.1% in 2001), which in turn has been crucial to macroeconomic stability. Rising real wages and consumption help to sustain political support for the government, as it has begun to move to tackle problems like the tax system, energy restructuring, banking reform, and a new land code—all of which create costs for different groups and interests in Russian society.

The manufacturing sectors of the Russian economy that are internationally competitive are military arms, nuclear power plants, and space technology. The domestic market for all three is very limited, which is one reason why foreign markets are important. The first two sectors in particular pull Russian foreign policy toward countries like China, Iran, India, Syria, and Iraq, which have an interest in the goods, ability to pay, and difficulties on Western markets. Russian arms sales in 2000 were about $4 billion, while the entire Russian defense budget was just under $8 billion.

An $8 billion official defense budget (real spending is probably higher once one includes defense related spending not listed in the official budget) may sound respectable for a country with a nominal GDP of $300 billion, but virtually none of Russian defense spending is for procurement, which means that Russian foreign arms sales are keeping its defense enterprises open and operating. This is significant not only in economic terms, but also politically, because much of Russia's defense plants are located in single-factory towns as a consequence of Soviet industrial practices, and the populations of those towns are entirely dependent on the military economy for survival. Large Soviet-era defense companies, such as Uralmash in Sverdlovsk have a direct stake in arms sales to China, such as a $150 million subcontract tied to Rosoboronexport's (Russia's state arms trading company) contract to sell a submarine to China.

In particular, foreign sales of military aircraft are keeping Russia's defense capacity alive while the battle over domestic military and defense industry reform begins. Arms sales are directly connected to Putin's plans for restructuring the Russian defense industry, and account for over 50% of Russia's armament exports. The government announced this month that three important aviation companies will be merged to create a powerful aircraft manufacturer, the new Sukhoi Aviation Holding Company, which among its other important foreign ties will have contracts with China for production of Su-27 and Su-30 fighters. The crucial domestic government dimension is that this company is to be one of the cornerstones of Russia's defense reorganization and modernization, and will also be tasked with modernization programs for the Russian Air Force's Su-27 and Su-30s. Because of resource stringency, the company is receiving the bulk of its resources from its contracts to produce for China.

Therefore, it is crucial to understand Russia's arms sales not only in terms of diplomatic relationships and regional great power politics, in which they undoubtedly

play a role, but in terms of domestic economic and political priorities. Russia's budget surpluses cannot be used to fund every need in the resource-starved country, so foreign arms sales make it possible to keep Russia's defense industries alive to support reform and modernization, which the leadership claims is next on the political agenda.

Another sector of the Russian economy with a stake in Russian foreign policy is the consumer sector that has been important for growth over the past two years. Because of the import substitution effects, the sector has done well, but as these effects diminish, the sector will need substantial investment and advanced management skills to continue to succeed. This is one of the sectors of the economy where business interests have pushed for improvement in Russia's foreign investment climate. In 2000, Russia attracted only $4.4 billion, or one-half of 1% of the global total. These industries, their interest European business contacts, and their support for corporate governance and banking reform necessary to attract foreign direct investment are a fascinating foil to the interests of Russia's aging but persistent defense industries.

However, while the consumer sector has been a strong base for the development of stronger Russian-European ties under Putin, it does not play a similar role in diversifying Russia's economic links in Asia and in balancing the importance of old Soviet economic sectors such as the defense industry. Partly, this is due to the nature of Russia's far east economy, which was not well-developed in light industry. Partly, it is due to the general decline of Russia's far east, which was developed in Soviet times as much for political reasons (to support the defense production and research sectors) and which faces built in obstacles to adjusting to market conditions. In large measure, it is due to the policies of Russia's far eastern regional leaders (most notoriously former Primorskiy krai governor Nazdratenko) who have not worked to make their regions hospitable investment and business climates, as have some of Russia's notable European governors, such as Mikhail Prusak of Velikiy Novgorod.

Therefore, to understand Russia's overall and regional foreign policies, one must understand how the Putin leadership owes its success to significant economic interests, as well as to supporters of political centralization and control in his leadership circles. It is the only way to understand the diversification of Russian foreign policy under Putin and its very pragmatic orientation, as is clear in the record of Russian foreign policy over the past two years. It is also the only way to understand how Putin's Russia has been active in developing foreign relations not only in Europe, but throughout Eurasia and Asia. Relationships with different countries and different regions fit in with different types of Russian economic interests and policies. The question for U.S. policy now is whether Putin's decision to support the U.S. in the fight against terrorism alters the balance of economic and geopolitical incentives and opportunities in a way that will change Russia's relations with the important countries in the region.

RUSSIA'S OBJECTIVES AND ITS RELATIONS IN THE FAR EAST

Putin's Russia has three main foreign policy objectives: establishing itself as a power in world politics, securing the territorial integrity and stability of its vast Eurasian landmass, and participating in international trade and finance. In the best of all worlds for Russia, the three are mutually reinforcing, but they are important to keep distinct, because they also can come into conflict, especially in Russia's east Asia policies.

Over the past few years, these three interests have been generally reinforcing in Russia's relations with China, and have been the reason for the development of a Russian-Chinese "strategic partnership" that appeared to have been sealed when the two countries signed the Treaty on Good-Neighborly Relations, Friendship, and Cooperation in July 2001. Russia's weakness and the unhappy condition of Russia's relations with the United States have made stronger relations with China a potential asset in achieving progress on all three dimensions.

In resisting what both countries deemed U.S. unilateralism and hegemony, the relationship with China provided Russia with diplomatic alternatives to accepting the reality of U.S. power and ability to go it alone on a range of important foreign policy issues. Beginning with their joint bitter criticism of the NATO (understood by Russia as essentially U.S.) intervention in Kosovo, the Russia-China alignment against the U.S. as the sole superpower made Russian resistance potentially more effective on the world scene than would have been lone complaining. The bilateral commonality of views gave greater legitimacy to the complaint. In terms of basic politics, the potential for Russian cooperation with Chinese on defense and security

issues meant that the U.S. needed to take account of Russia in Eurasia and the Far East to a greater degree than its actual power would warrant.

For the most part, Russia was the weaker partner in this diplomatic leveraging for global presence. As a rising power with a more successful economy supported by a more effective political system, China commanded U.S. attention in Asia regardless of Russia. The one important exception to this imbalanced relationship was on the ABM Treaty and U.S. pursuit of missile defense. As a party to the ABM Treaty (by virtue of its status as the sole continuing Soviet successor state), Russia has a claim on U.S. policies and programs that China does not. Insofar as a limited missile defense would threaten the credibility of China's nuclear retaliatory capability while not eliminating Russia's, China was the weaker partner in joint Russian-Chinese assertions of the importance of preserving the ABM Treaty, dependent on Russia's prerogative to hold the U.S. to account. Furthermore, insofar as China's deterrent and U.S. defense remains linked to calculations about the credibility of each country's positions on Taiwan, the strategic partnership was not entirely one-sided. The July 2001 Russian-Chinese treaty includes four articles pertaining to missile defense, obligating the countries to maintain global strategic balance and stability and to enter consultations when either perceives such an emerging threat.

On the question of the integrity of its Asian territory, Russia has operated from a position of weakness in two respects. First, Russia's claim to predominant influence and interest in Central Asia had been eroding over the 1990s. As China came to view terrorism in the region as a greater threat to its own territory and as it began to pursue relations with the Central Asian countries (Kazakhstan, Uzbekistan, Kyrgystan, Turkmenistan, and Tajikistan) to claim the right to address international terrorism in the region, Russia sought to pull China into its own preferred avenues for managing the states in the region and the array of security problems the region presents, including border security and illegal trafficking along with terrorist networks. Russia's achievement was the Shanghai Cooperation Organization (which was initiated as the Shanghai Five in 1996 when it included Russia, China, Kazakhstan, Kyrgystan, and Tajikistan, expanding to Six with Uzbekistan in June), but it was a dilution of Russian influence in the region relative to the Tashkent Treaty arrangement, in which Russia could claim rights in the region related to collective security without having to share leadership with China.

The second dimension of Russian weakness in the relationship is its demographic crisis in the Far East and the potential pressure coming from China's far more dense and dynamic population in the region. While earlier attention to the issue may have exaggerated the threat (stories of one million Chinese living illegally in the Russian Far East becoming a force for territorial claims in particular), it is certainly the case that Russia's Far East is in trouble. The region continues to suffer from low growth, high unemployment, and depopulation as Russians move to Russia's European parts in search of work and a better life. While Chinese economic migrants have turned out to be traders who do not seek to remain, the potential for Russian hostility to Chinese presence and economic success remains strong. This problem is borne of Russian weakness, especially relative to China's population and commercial vitality in region, and is likely to remain a potential problem for the coherence and viability of the country's Far East regions.

A more balanced element of Russian and Chinese common interests related to the territorial integrity and terrorism issues is the link in the countries' positions on Chechnya and Taiwan as "internal matters" in which the international community has no right to interfere, and in their mutual support for one another's positions on the status of those entities. The 2001 Treaty committed each to support the other's policy in questions linked with defending their territorial integrity.

Finally, on Russia's international economic objectives and ambitions, China has been a major component of Russia's global as well as regional strategy. Russia-China trade is up 31.5% in the first 9 months of 2001 over the same period last year at $7.6 billion. Russia has a substantial surplus in its trade with China, $5.8 billion in exports against $1.8 billion in imports. The proportion remains less significant than Russia's trade with Europe, which accounts for over 50% of Russian exports, but with Russia's January-September 2001 trade turnover at $105.8 billion China accounts for 7% of Russia's trade.

More to the point, the trade is concentrated in the important arms and energy sectors. Earlier, I explained the importance of arms sales to Putin's domestic as well as foreign policy goals, a sector where China's purchases are crucial to the Russian strategy. Yet while much U.S. attention has focused on Russian arms deals with China because of the regional security implications, at least as important are trends in China's focus on Russia as a source of energy as its economy grows and demands increase. China National Petroleum Corporation is exploring oil and gas sources in northern Far East region, including not merely purchases, but equity in Russia's en-

ergy companies exploring in the region. After talks with the local Russian company Sakhaneftegaz, CNPC has decided to build a gas pipeline and has expressed interest in an oil pipeline. Russian companies are working on supply options to China as well, including not only from Russia's Far East, but Central Asia and even the Caspian. Gazprom has won a tender to build a transcontinental pipeline to China that will require about $6–8 billion to complete the 6000 kilometer pipeline.

Another option is for China to participate in the development of oil and gas pipelines from deposits off the Russian island Sakhalin, which is the focus of Russia's current energy expansion in the Far East. Sakhalin may provide east Asian countries with Russian oil as well as natural gas for heating and electricity. The Sakhalin-1 and -2 projects involve different mixes of oil and gas, and involve different consortia of companies. Participating in Sakhalin-1 are SODECO (Japan), Exxon, Indian ONGC Sakhalinmorneftegaz-shelf and RosneftAstra, with overall investments estimated to total $12 billion. Sakhalin-1 will produce in the first stage primarily oil, with development of three oil and gas fields to begin in 2002. Daily oil production is planned to amount to 250,000 barrels, nearly all of which will be exported to Japan, covering 6% of the country's oil needs. The Sakhalin-2 consortium includes Shell, Mitsui and Mitsubishi, with total estimated investment over a decade estimated at $10 billion. It is primarily a natural gas project, with plans to sell liquefied natural gas (LNG) to Japan, South Korea, and Taiwan. The consortium plans to build Russia's first LNG plant by 2006. Sakhalin-2 production is currently seasonal because the production rig is ice-bound, and plans to build pipelines would enable year round production.

In addition to selling oil and natural gas, Russia's Far East could become a source of electricity in the region. Russia's Unified Energy Systems (Russia's electricity monopoly headed by Anatoli Chubais) has announced that it intends to construct an energy link between Sakhalin and Japan by 2010–2012. The idea is to generate electricity from the Sakhalin-1 and Sakhalin-2 continental shelf drilling projects and sell the electricity, not merely the natural gas, to Japan. The plan requires an electric power generation plant on Sakhalin and underwater power transmission lines.

These energy market plans create the opportunity for stronger Russian-Japanese economic relations, but they are in the early stages and the relationship remains limited. Russia's trade turnover with Japan in the first nine months of 2001 amounted to only $2.7 billion, less than half of that with China. However, Japan could well ultimately hold the key to keeping Russia whole: the Far East's economy is in shambles, evidenced most dramatically by the failure of its electricity system last winter (with temperatures falling to 50 degrees below zero, much of Russia's Far East went for days at a time with electricity blackouts). Development of its Asian energy markets would enable Russia not only to reap the gains of trade, but would contribute to an energy infrastructure necessary if Russia's own Far East is to remain viable. Unlike their fear of China's rise and potential designs on Russian territory, many Russian Far East elites welcome the prospect of Japanese investment. The potential complementarities of the economies are very intriguing and extend beyond energy. For example, now that Russia has said that it will sign the Kyoto protocol on global warming (having achieved generous interpretations of Russian emission rights), Japan is a large market for Russian sale of its pollution rights under this treaty.

When President Putin visited Japan, he invited the president of Japan's Business Association to visit, which he did in June 2001 with a delegation of 200 Japanese business people who visited several different regions of Russia. Putin met with the group in Moscow and explained the then draft laws designed to create a better business climate. Although the business people were reported not to be impressed with the state of Russia's economy in the Far East, they had a favorable impression of the legislation and Putin's commitment to achieving a workable business climate.

The problem in the Russian-Japanese relations remains, of course, the dispute over the Kurile Islands (or Northern Territories). In practical terms, any of the pipeline options in Sakhalin would require government approvals and studies, and official policy remains constrained by the lack of a peace treaty ending World War II between Russia and Japan and ceding the four northern islands to Japan. During Putin's leadership there has been some progress on the issue, when Putin said in March that the Soviet Union's 1956 declaration on resolving the dispute was viewed by his government as legally binding on Russia as the Soviet successor state. That declaration provided for returning the two southern islands after conclusion of a peace treaty, to be followed by negotiation on the status of the remaining two. Japanese Prime Minister Koizumi raised the question of opening discussions on that basis in both Genoa and Shanghai this year, but the Japanese position is that the two countries need to discuss return of the two southern islands and a peace treaty

in conjunction with a second track discussion on the status of the other two. In October the two leaders agreed to more talks on the island issue.

The potential of two parallel tracks creates the opportunity to meet both countries' requirements, but does not solve the question of how the two tracks would be connected. Japan wants a very close connection, while Russia has shown no sign of going beyond the concession that Putin made in his March declaration.

Therefore, while Japan has not quite been for Russia an alternative to China in meeting its three foreign policy objectives in the region (its status as a world power, territorial integrity, and international trade), the relationship has some advantages in diversifying Russia's relations away from dependence on China. The opportunity has not been realized in large measure as a result of the Kuriles dispute, but also by the past smaller scale of Japanese involvement in economic relations with Russia. However, if the relationship were to develop, it would offer significant benefits, not least the potential for a more balanced Russian economic profile in trade in the region (including fishing and related industries as well as the consumer sector) away from the dominant role of arms in Russian-Chinese trade.

Economic diversification and its potential positive effect on Russia's role and relationships in the regions is highlighted by the potential for Russia's relationship with South Korea. In addition to the opportunities for oil and natural gas exports to South Korea, Putin's government is very interested in the development of the Transiberian Railway as a transportation link from South Korea to Europe that would (Russian officials claim) reduce delivery cargo time from Asia to Europe substantially. To make the idea really work, it would require that the Russian railroad link to an inter-Korean railroad, which of course in turn depends on positive developments in North-South Korean relations. Thus, a thaw between the two Koreas could create an economic bonanza for Russia.

The signs are that the Putin government supports closer Korean relations but has not given up on supporting (within moderate bounds) the current North Korean regime. The Russian press suggests that the government may provide North Korea with electricity this winter, and Putin has warned the U.S. against isolating North Korea because it had become clear that it was not the source of terrorist threat. Although directed at undermining the U.S. case for missile defense, Russia's refusal to abandon support for North Korea is based on regional issues as well, including (as Putin pointed out a few days ago) that North Korea borders on Russia, which has a large Korean diaspora.

Yet combined with the incentives facing Russia to encourage North Korea to behave more responsibly in order to negate the U.S. position on North Korea as a threatening rogue state, the commercial incentives from this interesting transportation scheme illustrate how it is possible that Russia's economic interests and relationships in the Far East could possibly in the future develop in a more integrationist mode consistent with U.S. interests and regional allies than has been true of Russia's relations with China over the past decade. South Korea and Japan are not going to replace China in Russia's policies, because of China's importance to all three objectives, as we have seen. But the positive diversification of Russia's foreign policy under Putin that we have seen in Europe is now a potential—if on a far smaller scale in the near term—for Russian policy in the Far East.

IS THERE CHANGE WITH RUSSIA'S PARTNERSHIP WITH THE U.S. AGAINST INTERNATIONAL TERRORISM?

Putin's decision that Russia would join and actively support the U.S. fight against international terrorism potentially changes to a very significant degree Russia's constellation of relations in the Far East, if the analysis I have presented above is correct.

On all three main Russian foreign policy objectives—establishing itself as a power in world politics, securing the territorial integrity and stability of its vast Eurasian landmass, and participating in international trade and finance—China is less important.

Putin's choice has established Russia as a very important ally in the fight against terrorism. Russia has provided vital intelligence on conditions in Afghanistan, the Taliban, and terrorist networks. Russia and the U.S. are in close consultation in intelligence sharing and the volume, quality, and importance of the information and cooperation has been substantial.

Furthermore, while Russia does not have a veto over the choices of sovereign countries in Central Asia, in practical terms the willingness of Tajikistan and Kazakhstan to allow the U.S. to base forces on their territory needed active Russian agreement. Putin has since gone further, and stated this week that Russia is willing to engage actively in search and rescue missions to aid U.S. forces if needed.

Given concerns about the stability of Pakistan and that country's ties to the Taliban, the Central Asian countries became more important for the military operations in Afghanistan over the last few weeks. In addition, with the focus on creating conditions whereby the Northern Alliance could defeat the Taliban on the ground, it became more important for U.S. aircraft and Special Forces to operate from the north.

As the campaign against terrorism moves on from the Afghan theater, Russia will likely continue to play an important supporting role, even if the U.S. does not entirely accept Russia's view of the nature of the terrorist phenomenon in the Caucasus. In addition, if there is a serious post-conflict reconstruction of Afghanistan, Russia's location and support in Central Asia will remain important, as will its status as a permanent member of the UN Security Council.

In short, Russia does not need China to be important to the U.S. Furthermore, two of the implications of Russia's importance and role create problems for China as well.

First, the U.S. and Russia are moving rapidly toward a workable compromise on the ABM Treaty and missile defense testing and research. It is likely that if not at this week's summit then before President Bush's visit to Russia in June 2002 that the two parties to the treaty will interpret it to allow the U.S. to proceed with planned testing and research. While this will preserve the treaty and the framework of strategic stability which rests upon it, as Russia has committed to do in the 2001 treaty with China, it does so by allowing the U.S. to move forward with programs most likely to erode China's deterrent. One of the main diplomatic benefits China was to achieve from its relationship with Russia will be lost, or at the very least degraded.

Furthermore, as Russian military expert Alexander Golt has argued, Russia no longer needs the ABM Treaty to claim a seat at the security table with the U.S. because our partnership against terrorism brings that. For some time Russian experts have recognized that the ABM Treaty is of little practical value to Russian security, and its importance was its leverage with the U.S. to prevent us dismissing Russia. Without that benefit needed, it becomes easy to compromise on the treaty in favor of partnership, cooperation, and more important issues.

Second, Russia has significantly downplayed the argument that the war in Chechnya is a purely internal matter. Indeed, the main thrust of Russian policy is that the war there is a manifestation of international terrorism, akin to the September attacks in New York and Washington. Russia is not taking this position to welcome international involvement, of course, but to gain U.S. support for its policies against the separatists. The important point here is that in emphasizing the international linkage Russia is downplaying the "internal matter" warning, potentially eroding the effectiveness of its solidarity with China on the Taiwan issue. The point is not that Russia will now say that Taiwan is an international matter, but that it will be less likely to expend diplomatic effort helping China to make the case. The Chechnya/Taiwan link is less valuable to Russia, and less useful to China.

In addition, China becomes less important for managing Central Asian security, and terrorism in the region. Why bother with the Shanghai Six when the important and effective alignment of states is the U.S., Russia, Uzbekistan, Tajikistan, and Kazakhstan? This does not mean that Russia needs to provoke China, and indeed just this week a joint Russian-Kazakh-Kyrgyz-Tajik team announced reductions in Russian troop and equipment numbers on the Chinese border to comply with limits agreed upon in 1995–1997 agreements on confidence-building measures and arms reductions. Regional security cooperation with China remains in Russia's interests. But the difference is that now Russia does not approach the relationship from the same position of weakness as before 9/11.

In contrast, the economic issues and incentives in Russian policy on China by no means disappear. The same logic that made China an important market for Russian arms holds. We are unlikely to see Russia pull back from that relationship, precisely because it was not driven primarily by strategic or geopolitical concerns arising from poor relations with the U.S., but from the domestic economic stringencies and priorities I have described.

Indeed, we may even see a renewed emphasis on foreign arms markets as a result of Putin's recently announced renewed emphasis on defense reform. Putin said this week that the problem of defense reform involves "both the progress of reform and the armed forces' provision with up-to-date equipment and hardware" meaning that the logic behind supporting defense enterprises vital to the expected modernization is strengthened. (Interfax, 12 November 2001) We should not expect a slackening of the Russian-Chinese arms sales relationship.

Similarly, Russia will remain interested in China as an energy export market, and in potential Chinese investment in its Far East energy resources. In fact, if

there is a reduction in global demand due to recession, China could become more important if its own growth and growing demands are not too badly depressed by a global slowdown.

It is important for us to understand this constant element in the Russian-Chinese relationship so that we are not surprised by it, and so we understand it is not inconsistent with Putin's overall objectives and decision to support counterterrorism.

The next stage of the fight against terrorism also creates interesting prospects for change in Russia's Far East relationships. If the international community decides to launch a major reconstruction and development project for Afghanistan, China is unlikely to have a major say in the arrangements, since it has not played a role in the military operations of intelligence component of the campaign. It will have some say as a permanent member of the UN Security Council, but compared to Russia may have little in the way of assets to bring to the effort.

Japan is more likely to play a more substantial and long-term role in post conflict reconstruction, and its involvement may be a mechanism for closer cooperation with Russia. Japan is already active in Central Asia, in international assistance efforts, and in logistics support for U.S. military operations in the region.

The economic relationship with Russia remains more uncertain, and could take a problematic turn if Japan's economic troubles continue or worsen, reducing its demand for energy and therefore incentives to develop an energy trade and investment relationship with Russia. The lack of incentive of an improving economic and trade relationship with Japan may soften Putin's interest in solving the Kuriles Islands problem by going further in the direction of compromise with Japan's position, especially at a time when Putin already faces domestic questioning of his foreign policy, and in particular faces the likely prospect of NATO enlargement next year. Unless the U.S. were to play a more active role in resolving the dispute as part of a general effort to improve relations among our diverse counterterrorism allies, it is difficult to see where new incentives to resolve this problem come from.

Finally, does the fight against terrorism and Russia's active cooperation have implications for Korea? With improvement in U.S.-Russian relations and potential compromise on the ABM Treaty and missile defense, it becomes less important for Putin to insist that North Korea is a responsible international actor in order to undermine U.S. missile defense claims. If that is the case, then the liabilities of the continuing division of Korea and the instability created by the failures of the north's regime could become worth shedding, from Putin's perspective. That must be balanced against concern of further destabilizing the regime, and the fear of prompting it to irresponsible action, but it does not seem compatible with a newly confident Russia returned to importance on the world stage in its relationship with the U.S. to play hostage to North Korea.

Russia has already reduced it ties to Cuba by deciding to close its base at Lourdes. Is North Korea next as one of the vestiges of the Cold War that 9/11 and its effects prompt Putin's Russia to shed?

Mr. LEACH. Thank you very much, Ms. Wallander.

Mr. Faleomavaega?

Mr. FALEOMAVAEGA. Mr. Chairman, with all that said, I say amen. I do not know where to start given the tremendous amount of knowledge and expertise that has been brought before our Subcommittee this afternoon. It is certainly good for starters in terms of establishing a dialogue and there are just a couple of questions I wanted to ask members of our panel and also Mr. Glosserman from Hawaii, as we all envy him. I sense that he keeps reminding us he is calling from Hawaii, where the temperature there is probably about 82, 83 degrees.

I wanted to start with Ms. Wallander's statements and some of her observations. One thing that I find curious, at least of all the members of our panel here, no one ever made any comments about Indonesia, Thailand, the Philippines and Malaysia. Are they out of the picture?

Mr. LEACH. This is Northeast Asia.

Mr. FALEOMAVAEGA. This is Northeast Asia, so we will cover Southeast Asia some other time. Okay.

Let us start with Russia, as you had commented earlier, Ms. Wallander, in terms of Russia's standing and the friendship that has now been established by obviously President Bush and President Putin. When viewing Russia, the question of Chechnya always comes into focus and, of course, the People's Republic of China is confronted not only with Taiwan but also Tibet. As a comparison, to view populations as a factor as well, I think the Russian Republic now has about 145 million people to 1.2 billion that President Jiang Zemin is still having problems with administratively.

I have never considered Russia really as part of this equation, when dealing with China and Japan. It has been my understanding that Russia leaned toward the Western European context of influence and culture, whether it be with western European or the East European countries. Do you think that because of this, Russia is having a much easier time of collaborating with the United States as compared to China?

Because I think the issues also are not only unrelated but the magnitude in terms of some of the things that they cover are quite different. Chinese President Zemin may be well-versed with the English language, but I do not know if he likes to ride horses at President Bush's ranch. I do not know if he was ever invited by President Bush to go to his ranch in Texas. A little social interaction like that also has, in my personal opinion, serious implications. How the public perceives this, where maybe President Jiang Zemin would prefer having a Chinese meal in the evening rather than going out for a barbecue, I do not know.

But I wanted to ask you that it is quite obvious that President Putin's initiatives since the tragedy of September 11th have really cast Russia in a more positive role and we are naturally taken by this because we are looking for supporters out there. I do not know what the latest count is in terms of those countries who are with us, countries who are logistically supporting us in this effort, in combatting international terrorism. I have to totally agree with you that President Putin made a stroke of genius here in coming to help us in any way possible.

Do you suspect that Japan's initiative as well could be just as comparable? Because I consider sending a several hundred-member military force a major, major change, possibly even unconstitutional in my humble opinion, as the Japanese, in the last 50 years, have always insisted they cannot in any way use combat or military forces except for self defense.

How do you compare the importance of Japan's willingness to do this, which seems to me to be a major change in the whole foreign policy dynamic in this region of the world, as compared to the ABM negotiations now going on between Russia and our country?

Ms. WALLANDER. Well, thank you. I think that the scope of your question shows how incredibly volatile—in a good sense—the volatile time we are in and the opportunities that are presented, not just by the tragedies but also the responsible and constructive responses of a lot of countries in cooperating with the United States.

I will not claim to be able to answer specifically on the Japan issue other than to point out that it seems to me that in order for states to cooperate they always have to bring something to the table, and one of the problems in the Russia-Japan relationship

over the last decade is it is not clear that either country was willing to bring things to the table on which you could then cooperate. And it is not nearly the Northern Islands issue was the obstacle, that is sort of been a convenient scapegoat for other problems.

Part of the problem has been that the Russians have not been able to bring to the table a positive investment environment to be able to argue to the Japanese that they should be looking at region.

Part of the problem is that any movement in that relationship always had to deal to a certain extent with suspicion from—not suspicion, concern from other countries, regional powers, China, but also the United States. So by cooperating in Central Asia, by focusing on the potential for energy development, both Russia and Japan may be bringing enough now to the table that they can work on, but they may need American diplomatic support for those countries to see that that is something that is supported and viewed as being also something that they bring to the table cooperating with us.

So we need to be thinking—and I need not point this out to this Committee dealing with this region of the world, we need to be thinking beyond the bilateral relationships to trilateral or even multilateral in the area to achieve these opportunities in the areas that you discussed.

I think I will leave it there because some of the other issues——

Mr. FALEOMAVAEGA. My time is running and I have questions for the other members of the panel.

I just wanted to state, Mr. Bergsten, that I could not agree with you more concerning the economic situation in Japan. In terms of visibility, in terms of any real international recognition of the second most powerful economic power in the world, for 10 years. Japan has been faced with this recession and I can't guess how many hundreds of experts have come up and said this is how you are going to resolve the problem, and yet the problem remains. I wanted to ask, Mr. Bergsten, do you think that our own policy mechanisms are expressing sufficient serious concern about Japan's economic standing?

Because I agree with you, if Japan suffers economically, not only will the whole Asia-Pacific region go with it, but it definitely has global implications as well, but somehow I do not think even our own country seems to sense that Japan's economic situation is that important. That is my sense or impression and please correct me if I am wrong, Mr. Bergsten.

Mr. BERGSTEN. I think you are correct, that we should in fact be pressing Japan a bit harder than we are now to deal with the problem of its financial system, both to contribute to a recovery from the synchronized global recession and to avoid the kind of financial implosion and crisis that I talked about.

It is tricky to draw the line as to how we can best do that. I just published a book 2 months ago called, *No More Bashing*, which agrees with Mr. Glosserman was saying, that it is demonstrably not productive these days to be publicly haranguing Japan. That was tried by the previous Administration and it often led to a backlash and a failure of our efforts.

On the other hand, I think 9/11 actually offers an opportunity and here I would differ a bit, I guess, from what Mr. Glosserman was saying.

Far from regarding U.S. pressing on this issue as ingratitude for what the Japanese have done on the security side, I would view it as consistent with what we have asked them to do on the security side because the impact of 9/11, while obviously much more dramatic and much more of a priority, also had an economic dimension.

As I mentioned, it pushed the world economy into recession, it pushed our economy into recession. If we fail to deal with the economic dimension of the response to 9/11, we have failed in an important part of the reaction. We have been very skillful, I think, in putting together a multilateral coalition on the security side, but we should be equally aggressive in pressing for an international response on the economic side.

That means pushing the Europeans to be more aggressive in getting out of their doldrums, but it particularly means working with Japan to help them overcome their debilitating problem that has lasted for a decade.

As I mentioned in my opening remarks, Prime Minister Koizumi demonstrated enormous courage and used the 9/11 situation to overcome some of these longstanding political sensitivities in Japan regarding its security role. I would hope that he could use the economic dimension of 9/11 to also recognize political sensitivities and economic difficulties in dealing with their financial and economic problems that have been so debilitating for a decade.

I happen to think it would actually redound to his political favor. It would be tough to do the kind of full-scale workout of the banking system that is required, but if he did it, I am quite confident the Japanese markets would soar and his political popularity would soar because for the first time in 10 years there would be light at the end of the tunnel.

It would take another year or so to work through to get that, but for the first time in a decade, there literally would be some hope.

And if they fail to do it, they are either going to continue to muddle for another decade or, even worse, have a severe crisis that is going to be enormously adverse primarily for the Japanese, but for the world economy as well.

So I really do believe that the skill that the Prime Minister showed in dealing with the security dimension of 9/11 could equally be deployed on the economic side and then give him a 10-strike, or at least a 2-strike, and improve the situation enormously for all of our interests.

Mr. FALEOMAVAEGA. Mr. Chairman, I think my time is up. I will pass for now.

Mr. LEACH. Thank you very much.

Mr. FALEOMAVAEGA. I did not mean to pass our other friends here, I have some questions, too, but I will pass.

Mr. LEACH. Thank you, sir. Several other witnesses have indicated that they want to leave by five.

Let me begin just a little bit with Dr. Bergsten, who has made another case for fast track, the notion that if we do not move in a multilateral direction other parts of the world will move in re-

gional directions which will box the United States out of markets. Is that your case?

Mr. BERGSTEN. That is, I think, a very important dimension of the case.

Mr. LEACH. And you have done macro economic modeling that indicates that——

Mr. BERGSTEN. Yes. We have an analysis of about 30 permutations on these regional and bilateral deals, each of which indicate the effects thereof on all the major players, including the United States. Singapore and New Zealand do not hurt as much, but an East Asia free trade agreement would hurt us a lot.

Mr. LEACH. And you will leave that book with us, you will not keep it classified?

Mr. BERGSTEN. I will commend it to your bedtime reading, Mr. Chairman.

Mr. LEACH. Well, thank you.

One aspect of the Japanese banking system issue, though, that I just want to press, in one sense, it is extraordinary that a system that has elements of bankruptcy can continue because the Bank of Japan backs it and so they have a mechanism for insolvent institutions to maintain their wherewithal to operate.

I am told anecdotally by competitors of the Japanese banks that we are not dealing simply with a system that has a large hole that has to be filled, but that it is a system that increases the size of the hole with their general lending decisions on a daily basis and that that is one of the dilemmas that has to be dealt with.

In addition, it strikes me that part of the lending decisions that are made are of a "political" nature rather than economic nature, which means that non-economic lending creates disequilibrium in industries which can put to disadvantage the institutions as well as economic sectors within the country and the rest of the world. To bring semblance to orderly growth, one wants to have economic lending decisions so that those decisions are rooted in real market demands. Otherwise, we will continue to develop, particularly in Asia, a great deal of over capacity in many different industrial sectors that are rooted in lending decisions that have been rather loose. So it is to put discipline into the banking system that one wants to have market oriented banks.

Is that a fair analysis?

Mr. BERGSTEN. I think it is a perfectly accurate analysis on both your major points. The first one is absolutely correct that the amount of non-performing loans keeps rising. The whole Japanese strategy, modeled somewhat on what we did when our banks ran into lesser difficulties in the early 1980s and again in the early 1990s, was to try to gradually work down the non-performing loans out of bank profits.

The problem is that the Japanese economy has been growing so slowly, if at all, that there have not been many bank profits. So, whatever they have been able to pay off from that side has been more than offset by further increases in the non-performing loans. And therefore the capital position of the banks has been further impaired to a point where, as I said at the outset, roughly half the banking system is probably bankrupt on any normal accounting standards. The point being that until they come to grips with the

heart of the problem and enable their economy to start growing again, the difficulties will spiral downward and get worse and worse and at some point it will lead to a really major crisis, but at a minimum it condemns the country to continued stagnation.

On your second point, again, exactly right. And there is, of course, a major political tie-in. A lot of the bank lending has been to construction companies who get contracts from the government, turn around and make big political contributions and it is a circular system which is bad in both economic and political terms, at least as we would normally view it.

That makes it more difficult to deal with the banking problem at its head, but, again, indicates the likelihood that the loan portfolios of the banks will continue to worsen until they do something really fundamental about the difficulties.

Mr. GLOSSERMAN. Mr. Chairman, could I interject?

Mr. LEACH. Yes. Yes. Please go ahead.

Mr. GLOSSERMAN. It occurs to me that the problem goes even beyond that. I mean, not only is it a question of bad loans, but the fact of the matter is that the bankers themselves do not know how to make loans, they do not know how to assess credit risk, it has never been an issue for them.

Moreover, even when they are willing to look skeptically, they are not willing or able to insert a new incentive structure within the management of the companies that have taken the loans. Consequently, even if you recapitalize the banks, I do not see that as necessarily solving the deep rooted problems of creating a different sort of incentive structure among the management of Japanese companies.

I think that it is indicative of the enormity of the problems that Japan faces that there is really no easy fix on any of these matters and that as much as the Japanese banks need to probably be renationalized, a very drastic solution that is probably the only one, it is going to go far, far deeper than that and require much, much more.

The ultimate cost is going to be extreme adjustment on the part of Japanese society and what you can call its politics, but it is considerably more to look at than perhaps a doubling of their unemployment rates and no prime minister, no government really wants to look at that.

Mr. BERGSTEN. And, Mr. Chairman, could I just add, I agree that there is a very fundamental problem with the way the Japanese banking system is staffed and managed. That does suggest that part of the remedy, if they were willing to do it, would be more foreign investment. When they do try to clean up the banking system, instead of solely nationalizing the banks by government recapitalization, if they would permit foreign financial firms to take over or at least play a major role in restructuring the banking system, it would help deal with this problem of management and staffing.

However, there is bad news on that front, too. They did that recently with one major bank, now called Shinsei, a foreign consortium based here in the United States with Paul Volker much involved, bought a failing major Japanese financial institution on the promise from the Japanese authority that it would be able to run the institution like a bank. Yet just a few months ago the financial

services agency, the regulatory agency in Japan, essentially instructed the management of that bank to resume making loans to unprofitable borrowers on the excuse that they should keep funding small and medium size enterprises but really to keep lending to firms that did not merit loans on normal bankable criteria.

So, even in a case where they screw up their courage, permit a foreign firm to come in and take over a big bank, they have been unwilling, at least to this point, to permit it to really operate like a true bank.

So I agree with the basic point that Brad makes and the need to change the whole culture of the banking system in Japan as well as to restore its capital base.

Mr. LEACH. I do not want to dwell too long on this, but there are several things I would like to just comment slightly on. One, there was a reference to our problems in the 1980s in the banking system. We had no banking problems in the 1980s, we had a savings and loan problem. And the interesting aspect of that is it was basically an interest rate mismatch, not an asset problem. Japan has asset problems rather than interest rate problems, but it underscores that they have the most advantageous interest rate circumstance of any banking system I have ever seen. But if they ever also had an interest rate dilemma to go with their asset problem, it would be quantumly more difficult circumstance and that could conceivably occur, although most of us are looking at dis-inflation rather than inflation.

The second point is in terms of staffing, interestingly Japanese banks make loans on a dollar volume like five or six times per staff the member of a typical American size bank of comparable size. And so actually what the need is more people to give analysis, not fewer, and so to some degree they have a problem of not enough people, that they need a little more inefficiency in the system in order to be more prudential. And that is just a possibility.

Let me just turn now to Ms. Wallander.

I have never known a circumstance in which the thought that in bad news there can be a good news is more extraordinarily evident than in the U.S-Russia relationship today. That is, we are seeing new breaches in the world order that may be incredibly significant in some parts of the world with the 9/11 problem. And yet with Russia, we are seeing new bridges that seem to me to be psychologically of a deeper potential nature than many in America had even contemplated. That is, over much of the 20th century we had some real rifts with Russia, we had a turnaround with the Cold War coming to an end and it looked like a little movement in our favor, then this corrupted capitalism took over and we had this circumstance in the Balkans where everyone in Russia was against us.

Suddenly in the shortest time period I have ever seen in a country, people of the average citizen level are looking more sympathetically to the United States and they are looking much more sympathetically to Russian leadership dealing with the West in a more compatible way, and it is almost as if the internationalization of an American problem is opening up Russia to being more positive to America.

I have a friend who returned a couple of weeks ago who saw a drunk coming at him down the street in Moscow and he said, "Oh, gosh."

And this guy comes up and grabs his lapel and says, "You American?"

And the guy acknowledges and he said, "Well, in the Civil War, we were with you. World War I, we were with you. World War II, we were with you. Now it's like FDR and Uncle Joe all over again."

But it was an attitudinal expression from the man on the street that was rather extraordinary. And, frankly, sometimes in closed societies people at the top are more constrained by public opinion than those in open societies because in open societies you have processes that make a dissenting opinion respectable and acceptable. In closed societies, sometimes when leaders move against mass feeling, they are very vulnerable.

And I have the sense that Putin is acting in a much more open way to America in partial measure because the Russian people are much more open to America in the last 2 months than they have been at any time possibly in the 20th century other than, of course, the years in World War II when we were allies.

But this is something that we have to take advantage of and there are many different ways and techniques, but I think it is something that our populous is going to have to think through, too, as well as our leadership, that maybe this terrible, terrible news that we are dealing with can be used progressively in the Russian-American relationship.

Now, does that make sense to you or not?

Ms. WALLANDER. I think it does make sense and thank you for pointing out the social and societal level aspect of it. The poll numbers in Russia are incredible. The poll numbers are strong against Russian combat involvement in Afghanistan for reasons related to their history and also I think a healthy view of Russian society of what is going on in Chechnya in a strange sort of way, but the support for the U.S. operations and, as you point out so well, the sympathy and solidarity of views is coming up strongly in poll numbers and it was not just a blip after the attack, it has remained strong and, in some cases, has gone higher, especially the support for U.S. operations. And, frankly, some other countries in the world, they tend to question the U.S. operations over time.

So it is an opportunity and by fate the summit could not have come at a better time because those kinds of summits do focus societal interests and attention to our human opportunity and cooperation and I think that President Bush and President Putin are to be commended for going with that and I think it could solidify that trend that you identified in Russian society.

Mr. LEACH. I just feel obligated to say that as the President of the United States and the head of state of Russia come together to make certain kinds of arrangements, it is noted by the Congress and this Congress has an obligation to reflect respect for Russian decision making and to think in new terms of ways that we can be helpful to Russian society and I think that is a mutual obligation that has to be noted.

Ms. Glaser, you mentioned the extent to which China is providing some sorts of assistance, one of a humanitarian nature, but then, secondly, of intelligence and other natures.

Do you sense any shift in Chinese feeling toward America based on this or is it more or less the status quo but the Chinese government itself is being somewhat helpful?

Ms. GLASER. I think that this was an opportunity that the Chinese government was looking for, an opportunity to mute its differences with the United States, to really get beyond the EP–3 incident, the other difficulties in the relationship, to persuade the Bush Administration, which they perceive saw China as the next enemy, the next Soviet Union, that we are building our forces against, that China did not seek to replace the Soviet Union, did not want to be that enemy. And so they have, I think, very adeptly and in a way that contrasts rather differently, positively, with their past record, responded almost immediately. I believe that Jiang Zemin was the second leader to phone President Bush after President Putin to express his condolences and very quickly sought to find ways to cooperate with the United States and the United Nations in forging the resolutions and work very closely with the U.S.

So I think that this is something that they really have been looking for. They have been adept at taking advantage of it.

The question in my mind is whether it can be sustained. There are, as I said, a lot of common interests here in combatting terrorism, but there are also these other persisting problems in the relationship, concerns that the United States continues to have. And so I think it is incumbent upon the Chinese government to really seek to work with us in those areas as well and I think proliferation probably is at the top of that list.

What was perhaps up to now a somewhat intangible threat that was just potential is now quite realistic, the spread of possible chemical weapons, biological weapons that could be used not just against the United States but against people all over the world and so curbing the proliferations of weapons of mass destruction has become a very important issue and I hope that the Chinese government will move forward in this area.

I think that in a sense if you were to use a metaphor which I borrow from a friend and colleague of mine, Doug Paal, of a river in which you have rocks that are very hazardous as you are seeking to traverse the river, but in certain seasons you get more water in the river and so you can therefore navigate more smoothly. The Chinese need to find ways to keep that water level up, but inevitably the water is likely to go down and those rocks are going to re-emerge and so I think what the Chinese need to do is to figure out a way to remove some of them so that we can continue to navigate more smoothly.

There are obviously areas in which we do have common security interests with China and we can continue to work on those while seeking to narrow our differences.

Mr. LEACH. Let me just interrupt you just for a second, just for a judgment.

I would like, Mr. Cha, if you would comment, too,

My sense is Chinese leadership is handling this impressively, but my sense also is that there has been a real shift in Russian popular feeling. I sense no shift in Chinese popular feeling.

Do you believe there is or is not? And in which direction, if there is a shift?

Ms. GLASER. Mr. Chairman, that is exactly one of the points that I made in my opening remarks and that I find rather worrisome. I think that the Chinese public has for a long time been very concerned about what they see as U.S. policies that are aimed at them. They have been worried about U.S. intentions and they have obviously not been given the full range of information about some of the events that have taken place such as the 1999 embassy bombing and also the EP–3 incident.

There is a rising sense of nationalism and anti-Americanism in China that I do believe is very worrisome and I think that it is important for the Chinese government to educate its people more and perhaps more exchanges between the two sides in non-governmental areas could serve to address some of those attitudes.

Mr. LEACH. Well, I appreciate that. And the only reason I stress it, that one certainly has a sense in the EP–3 incident that the Chinese government was constrained by the populous to more than a small extent so then one of the great questions is how do you get popular shifts in view.

Mr. Cha, do you want to comment on this?

Mr. CHA. Well, I think it is more on the larger point which is, I think, Mr. Chairman, where you are going. What we see in Russia and China, particularly looking at Russia and China, since that is the topic of discussion, is initially sort of these pragmatic responses to the particular situation at hand and the question of whether there is a direction there for U.S. foreign policy or a new strategy that can be built on that greatly depends on this underlying attitudinal change, as you mentioned, Mr. Chairman, that is somewhat evident in Russia and less evident in China. If you do not have that attitudinal change, then it becomes much harder from the U.S. perspective to build sort of the foundation of a new strategy with the country if that attitudinal change is not evident.

Mr. LEACH. Okay. Let me turn now to attitudinal change and the subject you testified on, Korea. One has a sense that after a very powerful and popular attitudinal beginning for Kim Dae-jung that he has slipped dramatically in the last year.

Is there any prospect that before he leaves office that there will be a reciprocal visit from the north to the south?

Mr. CHA. I think you are right in your observation of Kim Dae-jung's popularity. I mean, he was someone who—he has gone through phases. He came into office with a mandate from the people to deal with the Asian financial crisis and that was what people thought he would be remembered for and, of course, that did not work out.

As Brad mentioned, his next watershed event was the improvement of relations with Japan and that sort of has not gone well.

So what we are left with is the sunshine policy and, frankly, time is not only running out for him, but the tools that he can employ to entice Kim Jong-Il to come for a return visit, he is also losing control of. The South Koreas had a by election in October in which

they lost basically any chance of a majority in the legislature and the opposition now is trying to pass legislation that would greatly curtail the discretionary funds that Kim Dae-jung might be able to use to engage with the north and bring Kim Jong-il south. So I think the time really is running out for him.

I think one important larger point, though, is that regardless of how the sunshine policy ends up, it is going to be remembered in South Korean politics, I think, as something that was very effective at widening the domestic political spectrum on views on North Korea. Prior to the sunshine policy, the spectrum was quite narrow, as you can imagine, and anybody who even hinted at any sort of non-zero sum relationship with the north was just branded as a traitor, a communist and basically it was also illegal. And now it is politically legitimate, I think, in the south to talk about some form of engagement with the north, maybe not the sort of engagement that Kim Dae-jung implemented, one that was non-reciprocal based, very much open-ended, but one that is much more specific and I think that in a future Administration in South Korea you will still see engagement, but it will be one that will be much more conditional than the sunshine policy was.

Mr. LEACH. Well, thank you very much.

Mr. Glosserman, thank you for joining us from afar.

We want to thank you all for very thoughtful testimony. I apologize, we ended up competing with a State Department review for the entire House of the war in Afghanistan and so it caused our Members to be sidetracked, but thank you for your testimony and I will make sure that everything is circulated to the full Membership.

The Committee is adjourned.

[Whereupon, at 5:17 p.m., the Subcommittee was adjourned.]

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